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AFGHANISTAN

AGRICULTURAL CREDIT ENHANCEMENT (ACE) PROGRAM

QUARTERLY REPORT Q1 FY 2014

OCTOBER 1 –DECEMBER 31, 2013



Members of the Afghan Women Saffron Association, an ADF returning client, harvesting saffron. The client will use their ADF loan to purchase saffron flowers from their members, process, package and export the produce to Europe and the Middle East.

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QUARTERLY REPORT

QUARTER I, FISCAL YEAR 2014

Program Title: Agricultural Credit Enhancement Program

Contract Number: EDH-I-00-05-00004

Contractor: Development Alternatives, Inc.

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Contracts Officer Representative: Ali Ahmad

Contracting Officer: Raphael Metzger

Chief of Party: Juan M. Estrada-Valle

ACE MISSION STATEMENT

ACE will establish and manage the Agricultural Development Fund; a wholesale lending institution under the Ministry of Agriculture, Irrigation and Livestock, making credit available to farmers and agribusiness entrepreneurs through a variety of intermediaries, in an unprecedented effort to revolutionize Afghan agriculture.



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LIST OF ACRONYMS

AAIDO	Afghanistan Almond Industry Development Organization
ACCI	Afghanistan Chamber of Commerce and Industry
ACE	Agricultural Credit Enhancement
ADF	Agricultural Development Fund
AISA	Afghanistan Investment Support Agency
ANSOR	Afghanistan National Seed Organization
AWSA	Afghan Women Saffron Association
BALSC	Bakhtar Agricultural and Livestock Secondary Cooperative
CC	Credit Committee (for the ADF)
CMU	Credit Management Unit
DAB	Da Afghanistan Bank
EPPA	Export Promotion Agency of Afghanistan
FAIDA	Financial Access for Investing in the Development of Afghanistan
FSCAA	Farm Service Center Association of Afghanistan
FTE	Full Term Employment Equivalent
FI	Financial Intermediary
IIFCG	Islamic Investment Finance and Cooperative Group
GDA	Global Development Alliances
GIRoA	Government of the Islamic Republic of Afghanistan
GIS	Geographic Information System
IDEA-NEW	Incentives Driving Economic Alternatives Project
HEWSA	Herat Empowered Women Social Association
HiH	Hand in Hand Afghanistan
HLP	Horticulture and Livestock Project
LPF	Loan Performer
KMF	Knowledge Management Facility
MAIL	Ministry of Agriculture, Irrigation and Livestock
MoU	Memorandum of Understanding
NFI	Non-financial Intermediary
NSDP	National Skill Development Program
PMP	Performance Monitoring Plan
SAB	Sharia Advisory Board
TO	Task Order
TRC	Technical Review Committee
TTWSO	Takhar Trader Women Social Organization

FOREWORD

Lending to the agriculture sector in one of the world's most volatile environments, and doing it in a sustainable way is no small challenge. Nor is it to build a self-sustaining institution, while keeping a development focus.

The ADF is on course to become a financially independent credit institution, a goal that will achieve in the next 2 years, consistent with what it would take under western conditions. This is the result of a solid business strategy, an uncompromising commitment with excellence and with maintaining the integrity of the institution, and the conviction of the team of Afghan professionals who are increasingly playing a leading role at management level.

The initial contribution made by the American people, through USAID is already being leveraged by other donors. This is a direct the unequivocal result of the reputation of the ADF as a transparent and robust institution, which by providing financial services to farmers, agro-processors and traders is promoting the rapid growth of the agriculture sector.

The High Council of the ADF is still strengthening; however it has been successful supporting management decisions that are protecting the ADF from political influence, while providing strategic direction.

The ADF specializes in the provision of tailor made financial solutions, which include loans that follow the production calendars of a large selection of crops, Islamic financial products duly vetted by a Sharia Advisory Board, and loans to female agribusiness entrepreneurs. The latter a group largely underserved.

During the last quarter the ADF continued to build a strong portfolio, it continued transitioning Afghan staff to management positions, previously occupied by expatriates. The transition plan is being implementing according to plan, only pending the identification of a private sector representative to fill a vacant seat at the High Council and the recruitment of the Executive Director.

In summary, the team implementing the ACE project is proudly achieving what seemed to be an insurmountable task; it established a sound financial institution in an unpredictable environment, is maintaining a healthy portfolio and has built a true partnership with the Afghan government.

Juan M Estrada-Valle
Chief of Party, ACE program

EXECUTIVE SUMMARY

The ACE Program entered FY2014 with a contribution of US\$3.5 million in funds from the Danish Embassy in Kabul, with the possibility of the amount increasing up to a total of US\$32 million. Capitalization of the fund to a minimum of US\$160 million will ensure the sustainability of the ADF and the commitment of the Danish counterparts builds upon the reputation of the ADF and its history of success. In addition, during the past quarter the ADF High Council endorsed the decision to create the ADF Charitable Foundation and approved its by-laws as proposed.

Of the initial US\$100 million transferred as a grant from USAID to GIROA, ACE has already approved US\$84.3 million in loans and has disbursed a total of US\$41.4 million. As of now, the ADF has on-lent to 22,417 farmers across the country through financial and non-financial intermediaries. In the light of the ADF transition, the program is actively engaged in strengthening the ADF credit policies and procedures to ensure that there are no gaps allowing for the use of discretionary power or political influence. These measures are expected to contribute to the overall sustainability of the fund in the long run. The team is finalizing the ADF business plan, an exercise that takes into consideration multiple scenarios for the ADF portfolio growth while targeting several market segments.

As the program approaches the last year of its implementation, the emphasis is put on an effective management of the ADF transition which will take place between January and July 2014. The ADF is a financially viable business model which complements the agricultural know-how and technical assistance provided in the last 10 years of development assistance, through direct investments. Over US\$41.4 million invested so far in the agricultural sector through the ADF have resulted in productivity, improvements in quality, job creation and therefore higher household income.

In the past quarter, ACE created a total of 512 (Full Term Employment) jobs in the agricultural sector, of which 241 for women. Since the beginning of the project the program has generated 2,499 jobs (in FTEs), creating economic growth for the Afghan households. Through innovation and entrepreneurship, balanced by risk management tools, the team succeeded to engage

ACHIEVEMENTS

OCTOBER – DECEMBER 2013, Q1 FY 2014

- RECEIVED AN INITIAL CONTRIBUTION FROM THE DANISH EMBASSY IN KABUL FOR US\$3.5 MILLION IN FUNDS FOR THE CAPITALIZATION OF THE ADF.
- THE ADF HAS A LOAN PORTFOLIO OF US\$84.3 MILLION, OF WHICH US\$41.4 MILLION HAVE ALREADY BEEN DISBURSED. THE ADF CONTINUES MAINTAINING A DEFAULT RATE AT LESS THAN FIVE PERCENT. 51 PERCENT OF THE APPROVED LOANS CONSIST OF SHARIA COMPLIANT PRODUCTS.
- ONLY IN THE LAST QUARTER ACE APPROVED 5 NEW LOANS WORTH OF US\$3.8 MILLION AND DISBURSED 12 LOANS WORTH OF US\$4.2 MILLION.
- 22,417 FARMERS IN 32 OF AFGHANISTAN'S 34 PROVINCES HAVE ACCESSED CREDIT. THIS NUMBER IS EXPECTED TO INCREASE DRAMATICALLY IN THE SPRING SEASON.
- ACE OFFERED FOUR TRAINING TO ITS ADF CLIENTS ON HYGIENE AND SANITATION IMPROVEMENT PRACTICES, WHEREAS THE AFGHAN TECHNICAL TEAM SUCCESSFULLY COMPLETED 5 COURSES DELIVERED FROM DALE CARNEGIE, INDIA.
- ACE ASSISTED THE ADF FEMALE CLIENTS IN HERAT WITH OPTIMIZING THEIR INDUSTRIAL PROCESSING SYSTEM FLOWS AND DRAFTING BUSINESS PLANS, INCLUDING FUTURE EXPANSIONS.
- APPROVED THREE NEW ACE AGRICULTURAL MODERNIZATION GRANTS FOR A TOTAL OF US\$303,580 AND IS CURRENTLY LOOKING AT SEVEN NEW GRANT PROPOSALS.

90 intermediaries across the country to effectively disburse the ADF loans.

To assist the ADF women clients succeed in their business, ACE engaged two short term advisors with training and qualifications in industrial design and food processing. The program assisted Herat Empowered Women Social Association (HEWSA) and Afghan Women Saffron Association (AWSA) in optimizing their industrial processing system flows and drafting their business plans. In the next quarter, the program will continue supporting women associations and companies in food processing, standardization and certification.

In the past quarter ACE approved and signed three new agricultural modernization grant agreements for a total of US\$303,580. These grants aim at providing technical assistance to the ADF existing clients, to assist their businesses grow as well as repay the loans on a timely fashion. The grant to Sudais Saud Ltd., will assist the client to upgrade their dried fruit and nuts processing center; whereas the grant to Herat Ice Cream is tailored to enable the client to build a larger cooling storage space; and finally the grant to Afghan Women Saffron Association (AWSA) is designed to support the association with establishing a credit management unit to track the ADF loans and repayments.

In a similar fashion, the team continued to assist the ADF clients focusing at the improvement of food processing lines, packaging and marketing strategies. In the last quarter, ACE supported Sayel Food Processing to purchase a packing machine for their potato chips as well as facilitated a transaction between the client and Bamyan Potato Cooperatives, another ADF client. Sayel Food Processing tested several potato varieties and purchased five MT of potato from Bamyan, whereas another five MT were funded by the project.

Since September 2013, ACE has been working with the Herat Ice Cream to establish three milk collection centers in three districts of Herat province. This effort will be formalized through a Global Development Alliance with the contribution of three parties, dairy farmers, Herat Ice Cream and the ACE program. At the time of this report, both ACE and the client are assisting with the legal establishments of dairy farm associations, upon the completion of which the grant proposal will be submitted for USAID approval.

The silk processing machinery funded under an ACE Agricultural Modernization grant to the Rabia Maryam Handicraft Company from Laxmi Textile Company in India was delivered. This procurement experienced unusual delays derived from the vetting requirements, logistical challenges and political unrest in Pakistan. However, the machinery will be installed at the end of February and the

Finally, developing an effective employee training program is vital to the long-term success of any business. For this reason ACE trained 73 employees of Sudais Saud Trading Company, Sayel Food Processing Company, Afghan Women Saffron Association and Ghulham Dastagir Food Production Company on hygiene and sanitation improvement practices. This training will enable the clients to follow standard operating procedures in food processing and thereby ensure compliance with basic food safety standards.

Component I: Delivery of Credit Services

The delivery of credit services constitutes the core activity of the ACE project. For this purpose, and in the absence of financial institutions interested to engage in agricultural lending, the project primarily partners with non-financial institutions and agribusinesses that on-lend to farmers.

ACTIVITIES UNDER THIS COMPONENT INCLUDE:

- Transition to the ADF
- Credit Operations and Services
- ADF Lending
- Innovation
- Gender Activities
- ACE and ADF Grants
- Internal Audit and Compliance

TRANSITION TO THE ADF

In a security context characterized by less than optimal conditions, by December 31st the ACE program has managed to establish a structured, robust and functional government-owned, financial institution serving over 22,417 rural households and agribusinesses in 32 provinces of Afghanistan. During the reporting quarter, ACE focused on the institutional transition from ACE to the ADF and mechanisms to ensure the integrity and sustainability of the fund in the long run. To successfully ensure the completion of this process, the program concentrated in streamlining three parallel processes:

- a) Looking at viable options for the capitalization of the Fund to a minimum of US\$160 million. ACE is currently looking for ways to leverage USG resources with funds from other donors.
- b) Ensuring independence of the fund through maintaining the current governance structure, in which GIRoA plays a role at the strategic level, in partnership with private sector representatives; and ensuring that the Executive Director – under the process of recruitment – has a proven record in solid corporate values and unquestionable professional integrity.
- c) Further strengthening the credit policies and procedures and adherence to them, ensuring that there are no gaps allowing for the exercise of discretionary power and influence.

In October, ACE designed a transition timetable which included the review and finalization of a comprehensive set of documents to be completed till March 2014. These include the following ADF policy and procedure documents and manuals.

- General Policies (governance, credit and underwriting)
- Credit and Risk Policy Manual
- Personnel Management Manual (Includes compliance policy)
- Financial Management Manual
- Technical Operations Manual
- Administration and Operations Manual
- Business Plan
- Job descriptions for members of Management Board
- Job descriptions for all staff members
- ADF Employment Contract template

Upon the completion of this process and the USAID approval, ACE will initiate the process of asset disposition from ACE to the ADF as well as the transfer of staff, payroll and operations cost to the ADF. This will signify the completion of the transition process.

The current governance structure of the ADF is comprised of the following: 1) the High Council, which is the highest decision making body of the ADF composed of seven members including the Minister of MAIL, Deputy Minister of Finance, Deputy Minister of MAIL, representative of USAID, Managing Director of Afghanistan Chamber of Commerce and Industry, a banking specialist and an agricultural specialist. 2) the Credit Committee which assist the High Council in fulfilling its oversight responsibilities related to credit activities and the quality of loan portfolio; 3) the Audit Committee which ensures the integrity of the financial statements and any disclosures compliance with legal and regulatory requirements and internal controls; and 4) the Governance and Compensation Committee which assists the High Council in strengthening and enforcing good corporate governance principles for the ADF. As of the end of December 2013, the ADF has a highly trained human capital and a very effective governance structure.

The ADF High Council gathered on December 1st 2013 to discuss several matters of importance for the ADF. Firstly, the Council resolved to create the ADF Charitable Foundation and approve the by-laws as proposed by ACE. The ADF Charitable Foundation will be funded through the late payments and late fees on ADF Sharia compliant loans. Either an internal ADF employee or an external candidate will be recruited as manager while the costs will be covered by the ADF. Secondly, Ms. Manezha Sukhanyar, a financial service expert was endorsed as a member of the High Council for a period of two years, expiring in December 31st 2015. Thirdly, the Council approved the Organization Chart and Policies and Procedures for the ADF with the changes agreed.

The ADF High Council also opted for other decision not requiring resolutions, such as:

- Agreed to the principle of a permanent seat for a donor on the High Council. The ADF Executive Director will prepare a paper outlining various options associated with the representation of donors on the ADF High Council and present it for consideration at the next High Council meeting. These examples include non-voting seats for additional donors and rotating assignment of the donor seat.
- The transition plan should be extended from January 2015 to a later date to allow for a better paced transition.
- The recruitment for an agricultural expert as a member of the High Council will continue together with the ADF CEO selection.
- Introduction of the ADF directors to the ADF High Council prior to their nomination.
- Selection of an external audit firm to audit the ADF operations.
- Preparation of different scenarios for the ADF business plan and financial projections to be presented to the Council.

The donor conference sponsored by MAIL and hosted by H.E. Mohammad Asif Rahimi, Minister of MAIL and Chairman of the ADF High Council which took place in July 2013, aimed at presenting the ADF donor guidelines and initiate communication with the international donors interested to invest in the ADF. This the current quarter, this activity has been yielding positive results. After several weeks of negotiations, the ADF received the first transfer from the Danish Ministry of Foreign Affairs for US\$3.5 million. The Danish Ministry of Foreign Affairs is currently processing an additional contribution of US\$26 million to the Fund, which depending on policy makers in Copenhagen could reach a maximum of US\$29.5 million.

CREDIT OPERATIONS AND SERVICES

Strong credit operations are a sine qua non of a strong financial institution. In the past quarter, ACE focused on consolidating the ADF Finance and Loan Operations units, training human resources, drafting internal control policies, departmental manuals while preparing for the transition, as well as separate roles and responsibilities for the three units including credit administration. Loan Operations department

continued to expand its service function within the ADF, focusing on daily booking of loan transactions on the MicroBanker system. For the quarter ended December 31, 2013:

- 18 loans totaling AFN 231,078,140 were disbursed
- 77 loan payments totaling AFN 205,393,494 were booked

For all bookings the relevant transaction slips payment invoices, repayment schedules and notifications were sent on the same or the next day to the clients. The department also carried out a reconciliation of ADF bank balances on a daily basis with the respective trial balance sheet items before instructing the system administrator to update the MicroBanker system. During the reporting period Loan Operations took on the new responsibility of rescheduling loan payments and restructuring loan arrangements on the MicroBanker system, acting upon appropriate Credit Committee and ADF management authorities. Close attention was also paid to satisfying internal audit requirements and upgrading the departments filing systems. The departments activities are expected to increase steadily as the loan book expands and more loans are disbursed.



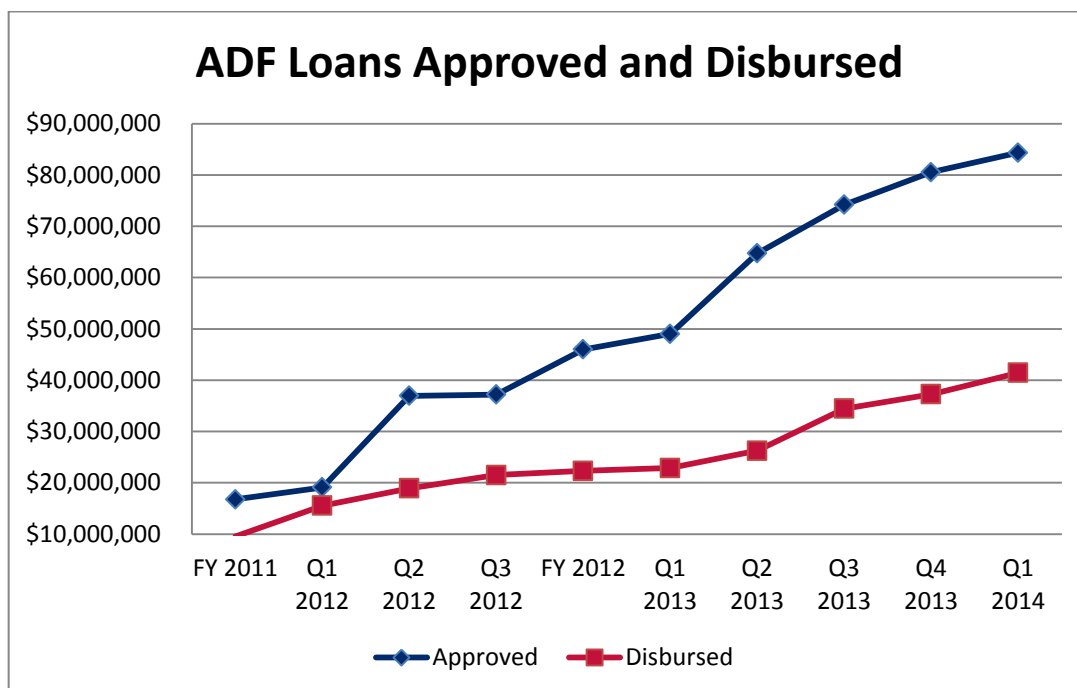
Views of the ADF High Council meeting which took place in Kabul on December 1st, 2013.

The ADF Finance department has assumed all of the financial duties performed earlier by ACE. The department will direct all strategic and business planning, and formulate the annual financial plan and budget. Throughout the year, the department will analyze and report on ADF's performance. The unit will work closely with the Credit Administration and Loan Operations to ensure the timely disbursements and booking of all approved loans. Financial Management and Controls, Accounting and Treasury are the three sub-units of the Finance department. The Credit Administration unit continues to review the documents in consultation with the legal advisor and forwards the loan agreement, disbursement instructions and decision sheet to the ADF finance department.

ADF LENDING

During the last quarter only, ACE achieved ADF Credit Committee approvals for five new loans worth of US\$3.803 million USD and disbursed over US\$4.19 million. Currently ACE/ADF stands at US\$ 84.4 million in approved loans, US\$41.4 million in disbursements and US\$19.4 million in repayments. The ADF has a default rate at 4.8 percent, which is within the accepted international banking standards. The graph below shows the trend in ADF approvals and disbursement for the past quarters.

Graph 1: ADF loans approved and disbursed by Quarter



Below is a list with the loans approved in the last quarter:

Table 1: ADF loans approved during the reporting quarter

No	Company/Entity	\$Loan Amount
Clients Sensitive Information		

The project executed 18 loan disbursements for 12 loans during the period of October –December 2013.



View of the disbursement of the loan of Motmaheen Agriculture and Livestock Retailing Association to its direct beneficiaries. The loan of US\$300,000 will benefit 837 farmers in veterinary medicine.

Table 2: ADF loans disbursed during the reporting quarter

No	Company/Entity	\$Loan Amount
Clients Sensitive Information		

ADF Business Volume:

- 1) Loans Approved by ADF CC: The total number of loans approved by the ADF Credit Committee reached to 198, worth total US\$87,350,495 (this number includes ADF grant approvals as well).
- 2) Loans Presented to Technical Review Committee (TRC): Six (6) cases were presented to the TRC meeting during December 2013 whereas there are approximately five (5) more cases are scheduled to be presented to TRC by January 2014.
- 3) Loan Disbursements and Repayments: There was only one disbursement to Sama Poultry Farm during the month of December. However, the total repayments received from the current clients were around \$1.3 million USD. This has increased the repayments to US\$19,445,097.
- 4) Loans in Pipeline: Fourteen (14) other cases are currently under review by the Lending Team, worth a total of around US\$6.7 million USD.

In the past quarter the team achieved the ADF Credit Committee approval for five new loans:

1. The Bakhter Agricultural and Livestock Secondary Cooperative in Balkh consists of four primary cooperatives serving 727 members who have access to irrigated land. The cooperative provides ongoing technical support to their members and supplies agricultural inputs prior to the planting season. The client will receive an ADF loan of US\$258,526 to provide agricultural inputs on credit to its members.
2. The Sayed Jamal Flour Mill is an existing ADF client which benefited from an ADF loan of US\$2 million in 2012 to purchase wheat from the local farmers. The client will receive a second ADF loan of US\$2,521,930 to purchase wheat from the local dealers and farmers across the Northern region and on-lend to 350 farmers.
3. The Ariana Saffron Company in Herat is involved in the saffron business. The client processes, packs and sells high quality saffron in the local and international market. The company will receive an ADF loan of US\$200,000 to purchase 134 KG of dried saffron from farmers and saffron associations in the Western region.
4. The Nangarhar Edible Oil Processing Cooperative, an existing ADF client is located in the Sheikh Mesri Industrial Park of the Nangarhar province. The cooperative purchases raw cotton from local farmers to process into soft cotton (lint), crude oil, animal oil cake and soap. They subsequently export the cotton fiber to Pakistan. The client will receive an ADF loan of US\$526,315 to purchase 764 MT of raw cotton from local farmers in Nangarhar and other provinces.
5. The Brotherani Samadi Gen and Press and Edible Oil Production Company located in Balkh has a network of a thousand cotton farmers. The company will receive an ADF loan of US\$253,108 to purchase raw cotton from local farmers and process it into cotton fiber and seed.

Client Retention

Since the beginning of the project, of the closed and repaid loans, 67percent of the ADF clients have applied for and received a second loan. This indicator is crucial in the light of measuring the profitability, efficiency and portfolio growth among other things. Economic research shows that client retention has a positive effect on institutional cost which decreases due the reduced need to engage in marketing activities, and less need for client orientation. It also increases staff productivity because they work with established clients; while it generally decreases loan risk as clients with established credit history tend to have good repayments record.

Over the reporting quarter, the project met with several ADF existing clients that are interested in new loans from the ADF.

- The Salahi Daikundiwal Brothers Agriculture Service Company located in Qallah-e-Qazi of Kabul is a major producer of cucumber which they supply to the Kabul and Ghazni markets. The client has established 56 greenhouses where they mainly grow cucumbers but also other vegetables. The company benefited from the first ADF loan of AFN 5 million which has been fully repaid and is now requesting a second loan for AFN 8 million to purchase agricultural inputs and working capital.
- The Uddin Wardak Wool Washing and Carpet Company benefited from an ADF loan of US\$300,000 to purchase organic wool from the Southern provinces. The client has fully repaid their first loan and is now interested in another ADF loan for US\$1 million to purchase raw wool.
- The Sayed Ahmad Khushkiyar Ltd., is an importer and distributor of pesticides, agricultural tools, seeds and veterinary medicine in Kandahar province. The company received an ADF loan of US\$500,000 which has been repaid at the amount of US\$250,000. The client is requesting a second ADF loan of US\$1 million to meet their market demand and expand their business.
- The Sanaizada Edible Oil Production Company is also requesting a second ADF loan of US\$1 million to purchase raw material such as cotton seed, sesame and flax from farmers in the Northern region. The company is located in Balkh and is engaged in producing edible oil.

New Business

In the last quarter the ACE project focused on looking for new lending opportunities to the agribusinesses and farmer organizations from the sectors of poultry, livestock, dairy, food processing, textile/handicrafts, agricultural inputs import, fresh and dried fruits exporters.

Central

- The Khan Dinarkhail Food Industrial Company produces chips, spaghetti and noodles which they supply in the regional market. The company was established in 2011 and initially invested US\$200,000 in their business. The client is interested in an ADF loan of US\$200,000 to purchase raw materials such as barely, corn, wheat, rice and potato from the local markets to increase their production and expand their business.
- The Khurshid Pakiza Dairy and Mineral Water Production Company in Kabul requested an ADF loan of US\$250,000 to purchase automatic filling machinery, two small trucks and milk tankers as well as to build two new storage facilities with the capacity of 12 MT of dairy products.

- The Maiwand Shadab Haji Zada Ltd is involved in the import and export of fruits and vegetables to Pakistan, India and Central Asian countries. The company engages 63 agents in different provinces of Afghanistan to collect fruits and vegetables from 500 farmer members. Thus, they are interested in an ADF loan of US\$300,000 to purchase fruits and vegetables and make advance payments to their farmer members.



Views from the facility of KhorshidPakiza Dairy and Mineral Water Production Company in Kabul.

- The Afghan Star Food Processing Company located in Kabul is engaged in potato chip production. The company purchases their raw materials from the local market and sells the product through their regional offices in Pul-e-Khumri and Jalalabad to Kabul, Balkh, Takhar, Kunduz and Nangarhar provinces. The client is interested in an ADF loan of US\$120,000 to purchase palm oil, potatoes, and packing materials.

North:

- The Babaji Agricultural and Livestock Cooperative is located in Mazar-e-Sharif and is involved in dairy farming and cotton processing. The company applied for an ADF loan of US\$100,000 to finance their cotton processing business.



Views of the raisin processing facility Farid LTD (Barat Group) in Mazar-e-Sharif, Balkh Province.

- The Afghan Organization for Horticulture and Livestock Development Services is located in Khulm district of Balkh province. The organization applied for an ADF loan of US\$400,000 aimed at on-lending to their 510 members who require funds to purchase fertilizer, UREA and for land preparation purposes.

- The Farid LTD (Barat Group) runs a raisin processing facility located in the Industrial Park of Mazar-e-Sharif. They produce around 12,000 MT of packed raisins for export. The company applied for an ADF loan of US\$2 million to purchase raisin on bulk from local dealers at a discounted price.

WEST:

- The Benazir Saffron Producer and Processor Company was established in 2011 and is located in the city of Herat. The company purchases saffron and saffron flowers from farmers, and after the cleaning, sorting and packaging, they sell their finished product in the domestic as well as international markets. The company applied for an ADF loan of US\$100,000 to purchase saffron and expand their business.
- The Haqdoost Limited Company, located in Herat city, is involved in trading of raisins. They purchase five varieties of grapes directly from gardeners in Guzara district of Herat, which they process and sell to wholesalers. The company requested an ADF loan of US\$700,000 to purchase packaging equipment and to provide advance payments to 30 grape vineyard owners.



Views from Ansar Industrial Slaughterhouse which located in Enjil district of Herat province.

- The Ansar Industrial Slaughterhouse is located in the Enjil district of Herat province and has the capacity of slaughtering 300 cows and sheep in a day. The company requested an ADF loan of US\$500,000 to install a cold storage facility and purchase a new plant for animal waste treatment into fertilizer.

South:

- The Ihsan Poultry Farm is located in Lashkargah City of Helmand Province. The Poultry Farm produces 25 MT chicks and animal feed daily which they sell to other provinces such as Kandahar, Farah, Nimroz, Zabul, Balkh and Nangarhar. To increase their animal feed production the client is requesting an ADF loan of US\$100,000 to purchase raw material such as corn and wheat.
- The Lava Chips and Food Production Company is located at the Industrial Park of Kandahar province. The company recently initiated the production of several types of potato chips, and applied for an ADF loan of US\$120,000 to purchase potatoes, an automatic packing and weighting machine.
- The Lalai Dried Fruit Export Company is located in Uruzgan province and has been operating in the market for the past 10 years. The company purchases several types of dried fruit and nuts such as almond, pistachio and raisin from farmers which they export to India and Dubai. The company plans to apply for an ADF loan of US\$100,000 to provide credit to farmers and purchase dried fruit to increase their exports.

- The Safa Dairy Farm located in Haji Aziz village of Kandahar city. The dairy farm is situated in 5,000 square meter land. The company invested an initial US\$100,000 in the start-up. The farm currently produces 250 Liters of milk per day which they sell through their sales point in Aino Mina of Kandahar. The prospect client requested an ADF loan of US\$150,000 to increase their working capital.
- The Niamatullah Dairy Farm located in Haji Aziz village near Kandahar city has been operating in the market for the past four years. The farm produces approximately 150 Liters of fresh milk per day. The prospect requested an ADF loan of US\$100,000 to increase the dairy herd and expand their business.

East

- The Sheraz Ayaz Textile Company, located in Behsood district of Nangarhar province, is a member of the Nangarhar Textile Association. The company produces garments such as shawls and scarves and has received subsidized washing, dyeing and pressing services from a textile processing facility supported by USAID's IDEA-NEW project. The company currently supplies its end products to the Eastern region and plans to expand their market to other provinces of Afghanistan. The client applied for an ADF loan of US\$100,000 to purchase raw material locally.
- The Majnoon Food Production Company located in the Surkhrod district of Nangarhar province, produces bread, pastry and cream rolls which they supply to the regional market. The company purchases their raw material and other ingredients from the local suppliers and is currently interested in an ADF loan of US\$100,000 to expand their business.
- The Silver Wall Distillery, located in Dar-e-Noor district of Nangarhar province, is involved in distilling rose petals and orange blossom. The client purchases flowers from farmers in Dar-e-Noor, Nazyan and Acheen districts of Nangarhar province and processes it into rose and orange blossom oil. Currently the company operates a manual distillery machine and is interested in an ADF loan of US\$150,000 to purchase an automated distillery system.



Views from the animal feed processing facility of Ihasan Poultry Farm in Lashkargah City of Helmand Province.

INNOVATION

ACE continues to provide its clients the opportunity to on-lend through Sharia finance mechanisms and credit management units, while utilizing agricultural credit shura events for awareness and promotion of the ADF.

- Islamic Finance
- Credit Management Units
- Agricultural Credit Shura events

ISLAMIC FINANCE

Three and a half year into the project implementation, 51 percent of the approved ADF loans consist of Islamic financial products. The ratio between Sharia and Conventional loans is even higher (55 percent to 45 percent) when looking at the disbursements. These figures indicate the successful achievement of the ACE program to provide access to finance in a culturally acceptable fashion, therefore using Islamic financial products.

The team convened the fifth ADF Sharia Advisory Board (SAB) meeting which took place on November 4th 2013 to discuss Wakala products, the ADF Accounts with Bank Al-Falah Islami Banking, and come up with official answers to some questions received from ADF clients and potential customers. Under the leadership of the SAB Chairman, Mr. Khuwaja Muhammad, the Board members have agreed to respond to customers' questions by assigning members to specific regions. For instance, while Mr. Khuwaja Muhammad is responsible for Central/Eastern region and Mr. Attayee is responsible for Western region and any questions on Sharia products and regulations. One question raised and addressed had to do with Wakala products on penalties and additional clauses on which a client has claimed that since they are acting as an agent (Wakil) the ADF should compensate them. The board recommended sending similar cases to them for the review and response. In addition the SAB approved the opening of ADF Islamic Finance accounts with Bank Al-Falah, recognizing that the Bank Al-Falah is one of the leading Islamic banks in the region. The members agreed to hold the next SAB meeting in March 2014.

Graph 2 and 3. Loan approved by loan type (Sharia and Conventional)

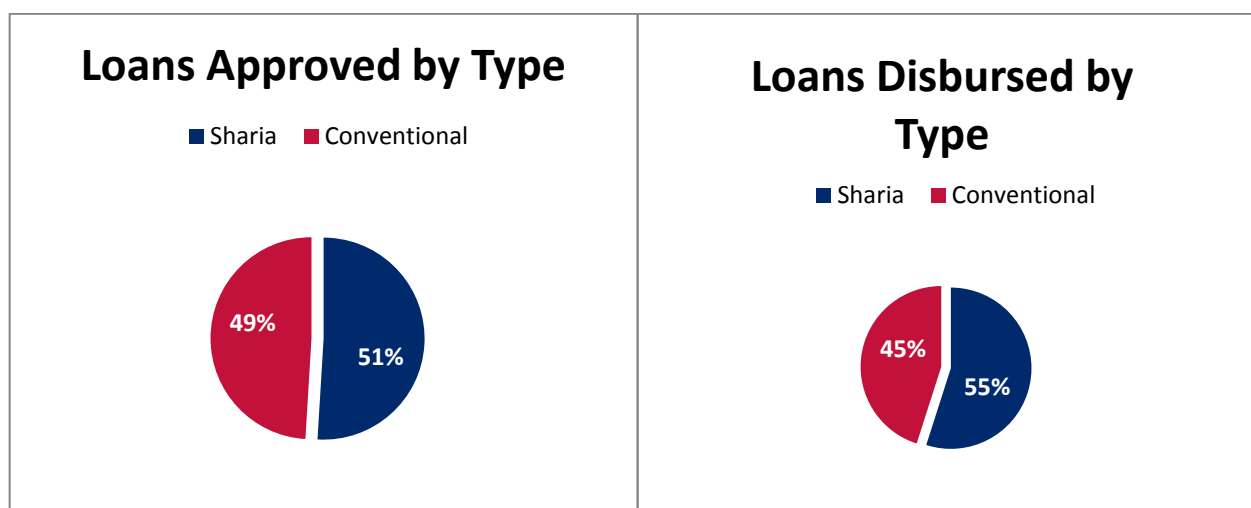


Table 3: ADF Portfolio by Type of Product

Type of Loan	Loans Approved	Loans Disbursed
Conventional	\$ 41,367,424	\$ 18,680,040
Sharia	\$ 42,991,636	\$ 22,767,238

TOTAL	\$	84,359,060	\$	41,447,278
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CREDIT MANAGEMENT UNITS

ACE has established six CMUs within the ADF non-financial intermediaries which have enabled the disbursement of \$10.8 million USD directly to 9,900 farmer borrowers. Till the end of the next year at least US\$20million will be disbursed through the CMUs.

- The AAIDO Credit Management Unit engaged in the loan collection in the provinces of Kunduz, Balkh, Samangan and Takhar. Till now the CMU has collected 26 Million AFN from a total of 44 Million AFN in loans and will continue with the collection.
- The team assisted ANSOR with the restructuring of their CMU. The operation is planned to start in late January 2014. The loan officers will engage in assessing the credit worthiness of the interested seed enterprises and review their collateral. At the time of this report, there are 14 seed enterprises interested in the ANSOR loan, of which 10 have been screened and should be ready for disbursement in approximately 10 provinces for a total amount of 109 million AFN.
- The Herat Empowered Women Social Association (HEWSA) CMU started their loan collection process from 20 women processing centers in the month of November. Till now the CMU has collected 2.4 Million AFN.
- The team is working to establish a CMU for Bakhtar Agricultural and Livestock secondary cooperative (BALSC) which is expected to be completed in early February. The vetting and budgeting process is underway.

AGRICULTURAL CREDIT SHURA EVENTS

Even though ACE is entering in the last year of the project implementation, the Agricultural Credit Shura, an instrument of awareness on ADF lending, travelled to Kandahar in the past quarter. In collaboration with DAIL, ACE met in October 6th with over 43 farmers, members of cooperatives, and agribusinesses. The event aimed at reaching out to larger numbers of potential clients and raising awareness on ADF lending opportunities across the southern region. The ACE team introduced the ADF lending possibilities, Zahra program, the Sharia compliant Islamic lending products, and the value chain assistance through which ACE/ADF seeks to strengthen their clients' operations as a mechanism to succeed. By doing so, the project increases the ability of their borrowers to succeed.



Views from Agricultural Credit Shura event in Kandahar province took place on October 6, 2013.

The team also met with the Director of Agriculture, Irrigation and Livestock (DAIL) of Nuristan province in Jalalabad to brief him on the ADF lending opportunities requirements and participation. The Director of DAIL for Nuristan province appreciated the initiative of the USAID and MAIL and pledged that he would strive to introduce potential clients to the ADF. On November 5, 2013, ACE met with Mr. Sharifi, DAIL

Director for Nimroz province to discuss the possibility of an Agricultural Credit Shura even in Nimroz. Due to the very limited number of agribusinesses and small cooperatives, the Director advised that a Shura event would not generate business. The team is looking at innovative ways at continue promoting the ADF lending opportunities.

Gender Activities

In the last quarter, ACE undertook a series of initiatives to support and strength the female clients in two fundamental areas: a) optimizing industrial processes, and b) assisting them in designing high quality business plans. To achieve this, an Industrial and Business Management consultant joined the ACE team in early October to assist the ADF's female clients to optimize their processing system flows, propose a layout and assess the installation of the processing equipment. Herat Empowered Women Social Association (HEWSA) and Afghan Women Saffron Association also received intensive technical assistance aimed at optimizing the processing system flows, assessment for the installation of their processing equipment and development of three-year business plans which were made available to them in the local languages.



Views from the premises of Herat Empowered Women Social Association in Herat. The client was assisted by ACE in the last quarter in optimizing their processing flows and developing a business plan.

In December 2013 ACE engaged another expert Ms. Nirvana Pradhan, a Food Processing Specialist to provide technical assistance to the Herat Empowered Women Association to assess formulation and processing of food products to improve organoleptic properties, presentation (including packaging), compliance with international standards on the use of additives and preservatives, shelf life and any other food characteristics. The consultant is considering international standards as well as local food quality perception standards, following Good Manufacturing Practices of the food industry. In January, ACE will provide a Training of Trainers (ToT) to the technical staff of Herat Empowered Women Association on basic food processing at practical level including a CODEX Additives and Preservatives training.

ACE the project developed three concept notes for “FATIMA ZAHRA Sharia Financial products”, “Women Business Training”, and “Corporate Social Responsibility Training”. After reviewing the concept note the team prepared and released the Request for Applications (RFAs) which were sent to the local public website (acbar.org). With regard to the Corporate Social Responsibility (CSR) ACE is looking for viable options to train its clients in CSR in order to integrate economic, social and environmental imperatives into their businesses with a major emphasis on creation of employment opportunities with especial focus on integration of gender. The project proposes a series of CRS training for our partners, clients and staff. This effort will be implemented in different phases, including follow up sessions and mentorship; it also comprised the development of a CSR curriculum that will be owned and used by ADF in the years to come. To achieve this, the team met with Nilofar Sakhi, Director of the International Center for Afghan Women Economic Development housed at American University of Afghanistan to discuss the concept note.

The Development of Afghan Women Organization (DAWO) and the Takhar Traders Women Social Association (TTWSA) are amongst the other grant recipients, which are benefiting from Agricultural Modernization grants to address health and social issues associated to carpet weaving in Bamyan and Takhar provinces. During the past quarter, the project continued working with these two clients in the grants mobilization stage to hire finance officers under both grants, and request for grants advance request. The ACE Agricultural Modernization Grants fund awarded to Takhar Trader Women Social Organization and Development of Afghan Women Organization is being used to address commercial and social aspects of carpet weavers in Takhar and Bamyan provinces.

During the past quarter, the project met Ms. Manezha Sukhanyar, the Head of Islamic Banking at Ghazanfar Bank to learn more about the bank's Islamic finance products and any other special services they offer to women. In addition, the team also met with AISA Department of Investment Support and discussed the ADF lending services. The outcome of the meeting was to schedule an Agricultural Credit Shura event for the AISA agriculture members in the upcoming weeks.



ACE assisted Rabia Mariam Handicraft Company to prepare the site for installation of new spinning and weaving machinery that will arrive from India.

The project attended a Conference on Funding Leadership Opportunities for Women (FLOW) which was organized by Oxfam. The main goal of the conference was to explore the challenges faced by women in the formal judicial system and improve women's access to rule of law. The event was also coordinated in partnership with Afghan Women Educational Center (AWEC) and Afghan Women Network (AWN). Similarly, the project participated in the last Gender Coordination Meeting for the USAID/Office of Agriculture which was hosted by Deputy Minister Kunduzi of MAIL and Home Economics Department and Gender Unit. The group discussed the terms of reference and its relationship with MAIL and other donor funding agricultural projects in Afghanistan.

Over the reporting period, ACE received the report of Women Cooperatives Capacity Building and Business Development from Hand in Hand Afghanistan. The one year project enabled seven women cooperatives in seven provinces of Afghanistan to develop a business plan and request for a ZAHRA loan after series of assessment, study tour and business mentorship training. The seven cooperatives have over 500 members and requested a total amount of approximately AFN 21 Million with minimal loan of 37,000 AFN to maximal of 4.5 Million AFN.

ACE and ADF Grants

In the last quarter, ACE received the USAID approval for three ACE agricultural modernization grant application packages for Sudais Saud Ltd, Herat Ice-Cream Company, and Afghan Women Saffron Association.

- Through an ACE Agricultural Modernization Grant of US\$66,480 ACE is assisting the Sudais Saud Ltd., to improve the pistachio processing center by purchasing a pistachio packing machine to improve production and packaging process. The grant is designed to provide technical and marketing support activities to enable the client to respond to the demand of the customers in the local and international markets, and enhance their business productivity and profitability.
- ACE is helping the Herat Ice-Cream company to access a wider cooling storage space inside the company area to increase their production and purchase of fresh milk from the local farmers. The Herat Ice-Cream Company has recently received a loan of US\$1.3 million to purchase modern machinery and provide advances to farmers to supply fresh milk for the company. The company will benefit from a grant of US\$150,000 to establish a cold storage within their ice cream processing facility.
- Afghan Women Saffron Association (AWSA) will benefit from an ACE grant of US\$67,100 to establish a credit management system to track repayments, minimize risks and enhance the association's productivity and profitability. Finally, this grant will assist the client to consolidate their marketing strategy to reach out to both domestic and international buyers as well as attend a ISO certification training program (ISO22000).

Table 4: ADF/ACE Grants Approved in Q1FY14

N O.	Business Name	Grant Purpose	Grant Type	\$Total Approved
Clients Sensitive Information				

Table 5: ADF/ACE Grants Disbursed in Q1FY14

NO.	Business Name	Grant Type	\$Total Approved	Quarterly \$Disbursed	\$Disbursed
Clients Sensitive Information					

Within the same period, the project completed a concept note for Frangis Food Processing Company and submitted it to USAID for approval. Through an ACE Agricultural Modernization grant of US\$25,610 ACE

is proposing to support the client improve their processing center, hire a technician to work with the company on installation of the new machinery, and design a marketing strategy including promotional material and TV advertisement.



Views from saffron processing site at the Afghan Women Saffron Association in Herat province.

In terms of disbursements for the existing grants, during the reporting quarter the project achieved the following:

- ACE processed and disbursed US\$1,844.32 to Nangarhar National Radio, Sharq Radio, and Eslah Ghag Radio for advertisements in Jalalabad under ACE Agricultural Modernization grant awarded to Afghan Rice Processing Mill. ACE has signed a grant agreement with Afghan Rice Mill Processing Company in Jalalabad to purchase and install an improved polishing and packaging machineries which helps the company increase their market share and challenge the imported Pakistani brands of rice. Also, promoting its products through advertisements on TV and radio channels and printing PR materials will enable the client to reach at a higher market share.
- The project processed and disbursed US\$706.29 under an Agricultural Modernization grant to Salehi Daikundiwal Brothers Agricultural Services Company to purchase supplies for the improvement of the packing facility.
- Under an ACE Agricultural Modernization grant to Rabia Maryam Handicraft Company, the project processed and disbursed US\$35,571 to Laxmi Textile Store in India for the procurement of silk processing machinery. The grant supported the client to purchase and install high tech silk processing machines and support marketing efforts of the company to address the demand of local and international buyers. The team also prepared a no-cost extension contract modification for the grant to Rabia Maryam Handicraft Company until March 31st, 2014. The project processed US\$7,791 to Asia Global Shipping Company to transport the silk machinery from Ahmad Abad in India to Mazar-e-Sharif.
- Under an Agricultural Modernization grant to Sayel Chips Foods Processing Company, the project disbursed US\$2,115.47 to purchase five Metric Tons of potato under a grant to Sayel Chips Foods Processing Company. ACE awarded a grant to Sayel Chips Foods Processing Company to improve the company's current process flow by access to new machinery and build the capacity of their technical staff through improved hygiene and training.
- Under an ADF challenge grant ACE disbursed US\$4,775 to AAIDO/CMU to provide further support the Credit Management Unit (CMU) within AAIDO operations. The Credit Management Unit operates within AADIO to disburse loans to the eligible members and complete timely loan collection.

- ACE disbursed US\$9,294 to Zhangjiagang Simbor Machinery Co, Ltd for the procurement of Single Side Glue Labeling Machine under an in-kind agricultural modernization grant to Qarizada Tomato Paste Production Company. The grant awarded to this client aims at improving product presentation, implement hygiene measures in the process, and improve safety conditions for its employees.

During the reporting quarter, ACE conducted site visits to two existing ADF clients, Habib Omid Ltd., and Herat Empowered Women Social Association (HEWSA) to provide grant management training and technical assistance to the companies to ensure that the grants funds will be utilized for the required purpose as specified in the grant agreement. During the trip, the team also met with the Herat Ice Cream Company, and the Afghan Women Saffron Association (AWSA) to update them on the status of their grant applications as well as to review their grant implementation plan and budget.



Left: View from financial management training to Takhar Trader Women Social Organization (TTWSO) in Takhar province. Right: View from grant management training to HabibOmid Ltd., in Herat province.

Internal Audit and Compliance

In the last quarter, the program audited the Bakhtar Flour Mill, and the Afghan Social Poultry and Animal Farmers Association. The scope of the audit included the examination for the utilization of ADF loan, physical verifications of stocks, verification of the documents and records to ensure that: 1) there are adequate internal control systems in place and operating effectively; 2) the ADF policies and procedures have been followed; 3) the financial and other information produced are reliable; and 4) the ADF loans have been utilized properly and in accordance with the loan agreements.

ACE audited the Loan Operation, Credit Administration, and Finance Departments of ADF for period beginning July 1, 2013 to September 15, 2013. The objectives of the audit were to ensure adequate internal control is in place to minimize the possibility of errors and discourage fraud; to understand the transaction flow and disbursement/repayment process of the ADF loans; to ensure appropriateness of transaction flows and completeness of supporting documents; to determine ADF complies with applicable regulations; and ensure completeness of credit files. The project also facilitated the auditing for E&Y External Auditors and provided any required documents and information they needed for their assignment.

Table 6: Audit reports undertaken during Quarter 4 FY'14

Audit Assessments conducted in Q1 FY'14		
No	Client	Status of the Loan
1	Departmental Audit (loan operation, credit administration, finance and IT)	N/A
2	Maihan Potato Cooperative in Bamyan	Disbursed
3	Bakhtar Flour Mill (Pvt) Ltd Company Kabul Afghanistan	Disbursed

4	Afghanistan Social Poultry and Animal Farmers Association	Disbursed
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Credit...
Financing
high value
agricultural
value chains



Table 7: ACE/ADF Grants

No	Business Name	Province	Grant Purpose	Grant Type	Start Date	End Date	US\$ Approved	US\$ Disbursed
Clients Sensitive Information								

TABLE 8: ADF LOANS APPROVED AND DISBURSED TO END BENEFICIARIES

SN	Borrower	Loan Type - NFI, FI, or Agribusiness	Appr oved	Province	\$ Loans Approved by MAIL & USAID*	Disbursed Loan Amount	Repaid Loan Amount (with interest)	Direct Benefici aries	Status
Clients Sensitive Information									

TABLE 9: ADF PIPELINE

Loan Pipeline Tracker Report						
<u>Borrower</u>	<u>Loan Type FI, Direct, NFI</u>	<u>Loan amount requested</u>	<u>Province</u>	<u>Category</u>	<u>Loan Application Stage</u>	<u>Notes and Comments</u>
Clients Sensitive Information						



Component 2: Agricultural Modernization and Value Chain Development

The purpose of ACE's Value-Chain strengthening unit is to provide technical support to the lending operations as well as to ADF clients. The unit leads the technical assessment of production; processing and marketing activities proposed by loan applicants and also provides technical assistance to ADF borrowers.

In the past quarter, ACE supported the overall objectives of the program through four complementary activities:

- 1) Provision of technical assistance to the ADF clients through ACE agricultural modernization grants;
- 2) Accomplishment of value chain technical reviews for the new ADF loan packages;
- 3) Conducting environmental compliance reviews for the ADF loans;
- 4) Coordination with other stakeholders and actors in the agricultural sector.

I. Technical Assistance to the ADF clients

ACE developed a comprehensive activity plan to further accelerate the grant processing for the ADF clients. Through ACE Agricultural Modernization Grants, the program is assisting its clients to address challenges with the efficiency of their processing lines, lack of marketing plans and constrains with market competitiveness. Below is a list of the ACE grants processed and implemented in the reporting quarter.

- The Nawi Henna Production Company is requesting a grant on technical assistance and marketing support to purchase a new packaging machine for henna production and protective cloths for their workers; design and print new brand presentations, and prepare promotional materials including TV and Radio advertisement. The team completed the concept note and submitted the vetting request to the USAID office.



Left: View of Meran Gozargah Cold Storage Service Company in Mazar-e-Sharif, Balkh Province. Right: View of Aziz Farid Cotton Processing Company's large cotton stock purchased with an ADF loan.

- The Masroor Food Processing Company is interested in a grant to support the company on food safety and personal hygiene of its staff, to improve the processing center facility and upgrade their warehouse where the finished products are stored.
- The Morvarid Food Industries is requesting a grant to purchase additional packing machinery for dried fruits and nuts. The intervention will consist of assisting the client to purchase machinery for 500-1,500 gram presentations containing a zip locker for better storage. With this machinery the client will enhance their competitiveness in the international markets.
- The Sayel Food Processing Company is another ADF client benefiting from an ACE Agricultural Modernization grant of US\$37,850 to purchase packaging machinery and technical assistance installation of the machine and training for their employees. The grant also includes purchasing of ten metric tons of potatoes for the company from Bamyan Cooperatives which was coordinated through the ACE project. To meet the food processing requirement of the client, the team provided five different varieties of Bamyan potatoes to Sayel Food Processing Company to test and select the adequate varieties for potato chip production. As a result, the client selected two varieties which are being purchased from Bamyan Cooperatives through the grant. This activity constituted a good opportunity for the farmers of Bamyan Cooperatives to penetrate into new markets and ensure potential contracts with potato processors in the future.
- ACE is working with the Herat Ice Cream Company and their subsequent dairy suppliers for the establishment of three fully equipped milk collection centers in three villages in Herat province. Currently the client collects milk from 16 different collection points; however the transactions typically take place in open air. To establish standardized milk collection centers equipped with laboratory and testing facilities, milk cooling and storage tanks within proper facilities, ACE is partnering with the client and the dairy farmers under the framework of developing a Global Development Alliance. The team is facilitating the farmers in the villages of Morghab, Asia Klokhi, and Maladan to establish associations which will implement these projects, while ensuring a sustainable market for their products. On the other side, the company, Herat Ice Cream, will ensure continuous milk supply for their operation. All the three parties will contribute to the financing of the project.
- The Dehqan-e-Roz Company, an ADF client processes dairy products such as yoghurt, dough and cream. The team provided specific technical recommendations on improving the overall hygiene and sanitation conditions as well as how to develop an operation procedures manual. The client's current processing capacity ranges between 500 KG of yoghurt in winter to 700 KG in summer. The product is packed in plastic jars of 0.5 liter and delivered to supermarkets and restaurants in Kabul. The client is currently facing marketing and sales issues which the ACE team proposes to address them through the following interventions: provision of fifty refrigerators to their dealers; several billboards around the city of Kabul and a marketing campaign in the local and national TV channels; and testing of raw milk and final products through modern equipment.
- The Afghanistan Social Poultry and Animals Farms Association is another ADF client supported through technical assistance. The main activity of the association is poultry farming; they are equipped with a feed mill with capacity of 2MT per hour. The current production capacity of the member farmers is 35-40 MT per month. The client also owns two incubators and two hatcheries. To address their current production challenges, ACE recommended the following: provision of feed analyzing machine to test the content of ingredients such as protein, fiber, minerals, and calcium which will enable the client to determine the effectiveness of their feed formula; purchase egg pallets to minimize the damage risk of transport from the farm fate to the market; provision of two digital scales to weight the feed; purchase of protective cloths for each farm member of the association; and provision of a hygiene and sanitation training of the employees.
- ACE extended technical advices to Khan Dinarkhail Food Industrial Company to prepare an appropriate plan and apply suggestions made by ACE to meet the technical requirements of their loan

application. Khan Dinarkhail Food Industrial Company produces potato chips, spaghetti and noodles for sale in Kabul and other regional markets. The company was established in 2011 with an initial investment of US\$200,000. The client is interested in an ADF loan of US\$200,000 to purchase raw materials such as barely, corn, wheat, rice and potato from the local markets to increase their production and expand the business.

- ACE conducted hygiene and goods manufacturing practices training in two separate sessions to 40 employees of Sayel Food Processing Company and Ghulham Dastagir Food Production Company in Nangarhar province. Similarly, the project conducted trainings to 20 workers of Sudais Saud Company, and 20 for women from five processing units of the Afghan Women Saffron Association in



Left: View from the Hygiene and Good Manufacturing Practices Training for Ghulam Dastagir Food Production Company and Sayel Food Processing Company in Nangarhar province took place on October 2 and 3, 2013. Right: View of the same training provided to the Afghan Women Saffron Association in Herat province.

Herat province. The training focused on personal and environmental hygiene, transmission and prevention of infectious diseases, sanitation and hygiene improvement practices. The project also conducted a post-training follow up visit to the member processing centers in Herat province. The purpose of the visit was to assess the impact of the training delivered to 63 women members of HEWSA and employees of the association. During the visit, the team found that all equipment in the processing centers were well organized and cleaned, and the workers apply sanitation and hygiene improvement practices to keep their working environment uncontaminated. In addition, the project met with two ADF clients including Azimyan Macaroni, Biscuit, and Salty Snack Producing Company, and Masroor Food Processing Company to coordinate with them the hygiene and sanitation practices improvement training to be delivered to their staff and workers. The training will focus on personal hygiene, first aid assistance during the processing of food, footbath practices while entering the food processing centers and preventive measures of diseases transmission.

2. Technical reviews for the ADF borrowers

Over the reporting quarter, ACE completed several technical reviews for the ADF loan applications that include:

- The Natural Herbs and Spices Production Company requested an ADF loan of US\$100,000 to purchase dried fruit, dried vegetable and packaging materials from local farmers. The ACE team provided technical advices to the client to remove dust; hang electric fly killers to avoid contamination of the product and build a separate warehouse to store raw materials and the finished products.

- The Bakhter Secondary Agricultural and Livestock Cooperative applied for an ADF loan of US\$320,000 to purchase four tractors, certified wheat seed, 22 Metric Tons of DAP and 434 Metric Tons of UREA fertilizers to be further distributed to their 201 member farmers in Dawlatabad district of Balkh province. As the season for wheat planting and fertilizer application was already over, the team recommended to the board members of the cooperative to remove certified wheat seed and DAP fertilizer from their loan application and use the ADF loan only to purchase the required number of tractors and Urea fertilizer which can be applied for any crop at any time during the year.
- The Herat Women Silk & Textile Producer Association applied for an ADF loan of \$100,000 to purchase modern weaving machine from India to modernize their weaving centers. The team visited the processing centers to assess the business activities and their final products. The association owns ten traditional wood weaving machines used for silk and cotton textile production.
- The Nangarhar Edible Oil Cooperative applied for a second ADF loan of AFN 30 million to purchase raw cotton from the farmers. The client installed new equipment which also allows for the seed separation from the cotton, and packs the final product such as cotton and lint. The team recommended to the client to purchase better cotton quality locally and design a marketing campaign to enhance their market competitiveness vis-à-vis imported products.
- The team visited the Ghulam Dastagir Food Processing Company to assess their facility. To improve the noodle processing centers, ACE suggested a series of measures such as, the provision of hundred baking iron containers for noodles, plastic shovels to mix the flour, installation of a hand washing sink, food safety signboards and stainless steel small containers for flour filtering and mixing.
- The Mawlana Roomi Cooperative purchases several types of dried fruits such as almond, dried apricot, raisin, fig, from local farmers and export them to Pakistan, India and Tajikistan. The cooperative has a central storage in Kandahar city where they conduct the processing activities such as cleaning, sorting grading and packaging. The team recommended several activities to properly clean, sort and pack their products to meet the general sanitation requirements.

3. Environmental Compliance

During the last quarter, ACE conducted environmental reviews and screening for three ADF clients: the Mehran Gozargah Cold Storage Service Company, the Ghulami Brothers Company and the Masroor Food Processing Company. The clients have moderate environmental risks from loan funded operations. The clients will implement the mitigation measures described herein and to report deficiencies, problems or significant changes in their business operations, or mitigation measures to the loan manager. The project submitted the documents of the clients to USAID Mission Environmental Officer for approval. The purpose of the environmental compliance is to ensure that ADF clients comply with the environmental procedures mandated by a U.S. federal law, codified in Chapter 22, Code of Federal Regulations, Section 216 or 22CFR216, commonly known as Reg. 216. The objective of Reg. 216 is to minimize and eliminate the potential environmental risks from U.S. government activities in foreign countries through a two-phase process of risk characterization followed by identifying appropriate mitigation measures or conditions if needed.

Table No 10: List of ADF loans screened for Environmental Compliance

Loan Case Approved	Screening Result	Mitigations	Status
MehranGozargah Cold Storage Service Company	Activities represent a Moderate or Unknown Risk	Specific activities in procurement of high-quality, disease and pest- free fresh fruits and vegetable, treated only with allowed pesticides in the Afghanistan PERSUAP.	Submitted for approval

Ghulami Brothers Company	Activities represent a Moderate or Unknown Risk	Providing safe transportation to avoid recontamination, and use personnel protective equipment including masks, gloves and shoes, Providing enclosed, controlled, pest- and moisture- free, cool, dry and clean storage, prepare workers health and safety training	Submitted for approval
Masroor Food Processing Company	Activities represent a Moderate or Unknown Risk	Specific activities in providing sanitary environment for sorting and packaging, providing training to the workers on Good Manufacturing Protective to process hygienically. Providing quality raw materials, sanitized processing equipment	Submitted for approval

4. Coordination

In the past quarter, ACE participated and supported several events to promote ADF activities and clients, and made every possible endeavor to coordinate activities between the ADF clients to find markets for their products.



First, ACE participated in two major events; 2nd Access to Finance Exhibition, and 13th Kabul international Agricultural Exhibition. In the first event, which was coordinated by USAID FAIDA and Afghanistan Bank Associations (ABA), ACE organized a booth to provide information to visitors on ADF lending products. In the second event, ACE facilitated the participation of ADF clients from different provinces of Afghanistan. The project encouraged most of the ADF clients to take part in the 13th Kabul international Agricultural Exhibition to display and find good market for their products. In total 17 ADF clients participated in the event at their own costs.

Second, the project participated in first India-Afghanistan Innovation Partnership Fair held in Kabul with technical and financial support from the USAID. Over 40 businesses showcased their products and services. The strategy consisted of ways to identify and support innovation solutions, deriving from India

which could be of use in Afghanistan. ACE visited several Afghan and Indian business booths to discuss matters of mutual interest.

Third, to strengthen the establishment of business link amongst its existing clients, ACE facilitated a meeting between the members of Bakhter Secondary Agricultural and Livestock Cooperative and Omid Khurshid Noor Ltd, a supplier of solar irrigation equipment. The meeting concluded with an agreement on provision of solar irrigation water pumps on credit basis and at a reasonable price to the members of



View of the potato quality testing in Bamyan from the representatives of the Sayel Food Processing Company. Through an agricultural modernization grant, ACE enabled the client to purchase high quality potatoes from the Bamyan potato cooperative and test the product.

Bakhtar Secondary Agriculture and Livestock Cooperative. Similarly, the project organized another meeting between Sayel Food Processing Company and Bamyan cooperatives. Sayel Food Processing Company is an ADF client that is benefiting a grant of US\$37,850 to purchase packaging machine and receive technical assistance also includes purchasing of ten metric tons of potatoes for potato chip production. The owner of the Sayel Food Processing Company along with ACE representative traveled to Bamyan on November 11th to sign a contract with Bamyan Potato Cooperatives to purchase 10 MTs of potatoes. The goods were delivered to the client on November 18th of which 5 MTs were funded by ACE to encourage the strengthen market links between ADF clients and develop domestic markets.

Component 3: Coordination and Knowledge Management

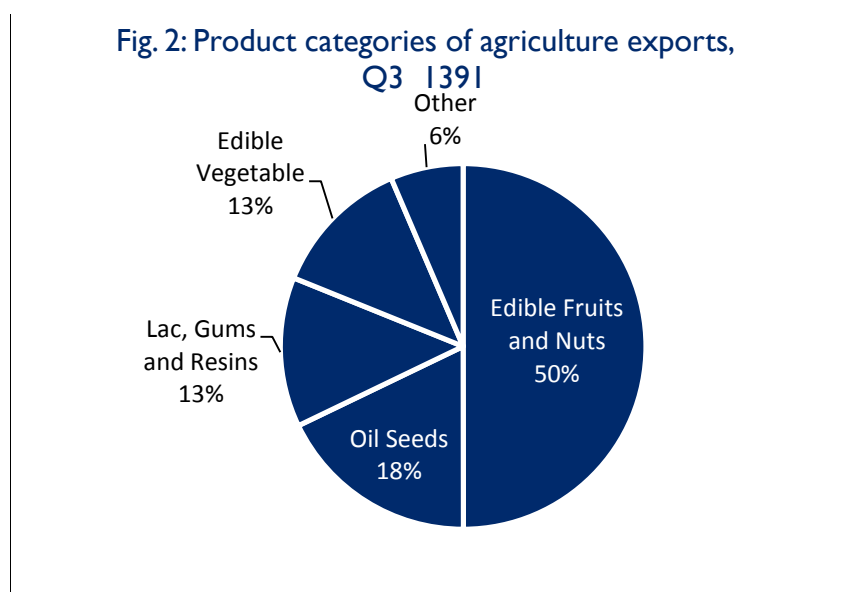
The Knowledge Management Component aims at integrating production and market information currently being generated by an array of organizations, and transforming it into market intelligence applicable to diverse audiences within the agriculture sector, while building the capacity of MAIL staff to manage the system.

During the reporting quarter, ACE finalized and published the third quarterly trade report for 1391 covering the period from September 21, 2012 to December 20, 2012. The agriculture trade report, 8th in a series, attempts to bridge the trade information gap that agricultural actors might face. The trade report includes information on agricultural trade flows by commodity, customs house and partner countries. It also provides insight into: 1) major agricultural commodities exported as well as export destinations 2) major agricultural commodities imported and countries of origin and 3) characteristics of agricultural trade.

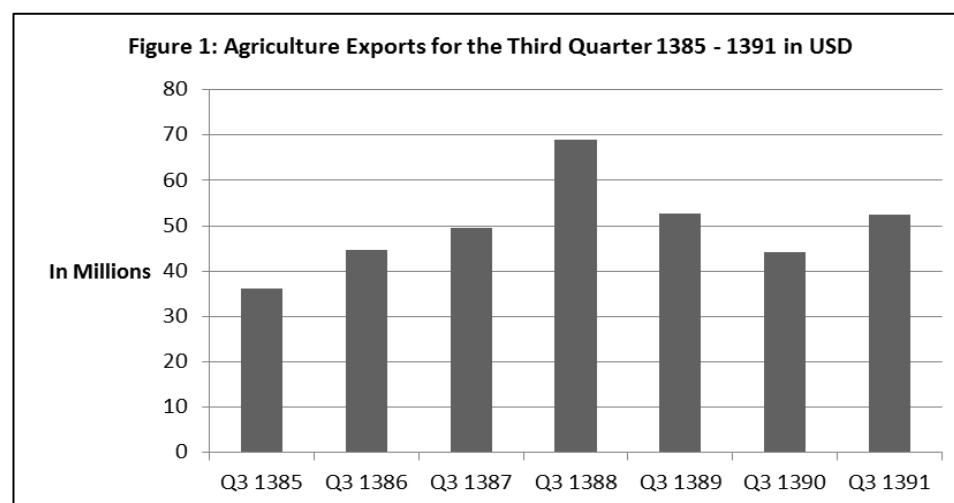
Agricultural exports increased by 18.45 percent during the third quarter of 1391 experiencing increment from the same quarter of periods 1385-1391, as shown in Graph no 4. Agricultural exports valued at 2.753 billion AFN (52.4 million USD), represent a smaller share compared to the imports, and their share have decreased by 3 percentage points to 8 percent compared to the same period in 1390. Table 1 and

figure 3 show the relative composition of agricultural exports by category. Agricultural exports are represented by four main categories of raw products this quarter. The main category is composed of fruits and nuts which constitute 50 percent of agricultural exports. Oil seeds valued at 491.8 million AFA (9.3 million USD) represent the second important category accounting for 18 percent of agricultural exports. The third category, gums and raisins account for 13 percent of agricultural exports. The trend of agricultural exports varies among the main product categories. Oil seeds, listed among the main categories of export last year, show a negative trend, which is leveled by significant increases in export values of fruits and nuts and edible vegetable. The changes in export values of the other categories (Graph no 5) table I) affected overall export only slightly because of the small relative share to total agricultural exports during the third quarter of 1391.

Graph 4: Product Categories of Agricultural Exports



Graph No 5: The trend of ag. exports for the third quarter in the past 7 years



Performance Management - ACE Progress against Targets

ACE has achieved or exceeded nine of its 15 PMP indicators while meeting the objectives laid out in the Annual Workplan 4. The team has successfully managed to establish a highly effective Agricultural Development Fund which has already lent over US\$41 million, maintaining a default rate of 4.84 percent. The ADF, led by its High Council has now a strong governance structure which is the foundation for every successful financial institution.

The M&E team continued to monitor the field disbursements across the country mainly focusing in the North and the East in the past quarter. ACE monitors the process of disbursement, ensuring that the loan agreements between the intermediary and farmers are in compliance with the loan purpose. This model has proven to very effective and has enabled the team to monitor the on-going disbursements of several clients in the past quarter only. The table below shows the disbursements to end-borrowers carried out in the last quarter.

Table 11: ADF Loans to farmers achieved in Quarter 4 FY14

No	Company	Direct beneficiaries
1	Aziz Farid Cotton Processing Company	122
2	Nangarhar Edible Oil Processing Cooperative	377
3	Takana Sefla Brothers Co. Ltd	46
4	Azimyan Macaroni, Biscuit, and Salty Snack Producing Company	25
5	Motmaheen Agriculture / Livestock Retailing Association	225
6	Paktika Urgon Pine Nuts Association	11
7	Shir Poor Sultani Flour Mill	35
TOTAL		841



Ag Credit

...

Benefiting
22, 417
farmers
across 32
provinces of
Afghanistan



Left: Farmer beneficiaries of the Motmaheen Agriculture and Livestock Retailing Association in Samangan province, who received veterinary medicines, and pesticides as in-kind loans. Right: View during the disbursement of Aziz Farid Cotton Processing Company in Balkh province.

Quarterly Results for Q1 FY 2014

This section presents ACE's achievements against targets from October 1st to December 31st 2013.

Indicator #1.1- As of December 31st, ACE achieved a net total of US\$84,359,060 in approved loans, achieving the quarterly target by 99 percent of and continuing to close the gap between actual and target of the past quarter. During the last quarter only, ACE approved an additional \$3.8 million USD in loans.

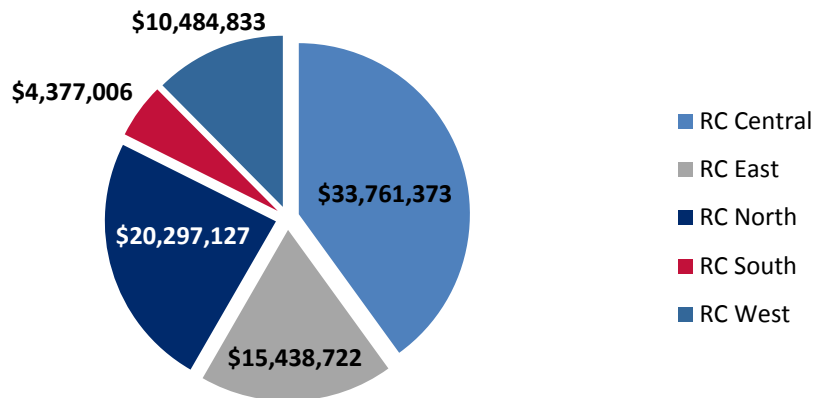
Table 12: Net amount of ADF loans approved and disbursed per Quarter

Quarter	Approved (Cum)	Disbursed (Cum)
FY 2011	\$16,746,562	\$9,515,771
Q1 2012	\$19,104,562	\$15,530,721
Q2 2012	\$36,943,562	\$18,917,799
Q3 2012	\$37,212,970	\$21,505,726
FY 2012	\$46,010,957	\$22,319,454
Q1 2013	\$49,010,957	\$22,878,054
Q2 2013	\$64,723,195	\$26,234,451
Q3 2013	\$74,214,455	\$34,464,253
FY 2013	\$80,542,655	\$37,256,268
Q1 2014	\$84,359,060	\$41,447,278

During the same time period, ACE successfully disbursed a total net of US\$4.2 million to the ADF clients. As of the end of the quarter, ACE has managed to disburse a total of US\$41.4 million USD achieving the disbursement target by 73 percent. Graph 6 below shows the distribution of ADF loans approved by regional command, whereas Graph 7 indicates the loans disbursed according to the regional command.

Graph No 6: ADF Loans Approved by per Regional Command

Value of Loans Approved US\$



Graph No 7: ADF Loans Disbursed by per Regional Command

Value of Loans Disbursed US\$

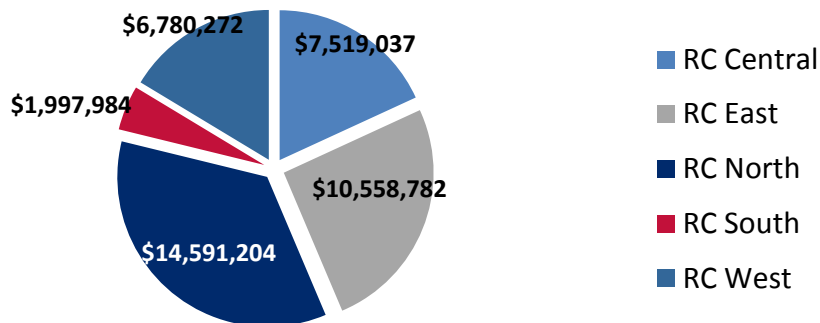


Table 13: Performance Data Q1 FY 2014

Indicator Name and Number	Baseline (date collected)	FY 2011	FY 2012	FY 2013	Q1 FY 2014 (total for this quarter only)*	TOTAL Cumulative Q1 FY 2014	Target for Q1 FY 2014	%	Target for FY 2014
		Actual	Actual	Actual	Actual	Actual	Target		
1.1 Value of finance accessed through lending	0	\$16,746,562	\$46,010,957	\$80,542,655	\$84,359,060	\$84,359,060	\$85,000,000	99%	\$85,000,000
Male	0	-	\$45,325,957	\$78,731,638	\$82,548,043	\$82,548,043			
Female	0	-	\$685,000	\$1,811,017	\$1,811,017	\$1,811,017			
1.1 - a Values of Loans Disbursed	0	\$9,515,771	\$22,319,454	\$37,256,268	\$41,447,278	\$41,447,278	\$57,000,000	73%	85,000,000
Male	0	-	\$22,021,458	\$35,976,515	\$40,102,292	\$40,102,292			
Female	0	-	\$297,996	\$1,279,753	\$1,344,986	\$1,344,986			
1.2 Number of individuals benefiting from financial agreement	0	8,720	15,233	21,574	843	22,417	45,000	50%	60,000
Male	0	8,717	15,089	21,080	843	21,923	43,875		
Female	0	3	144	494	0	494	1,125		
1.2 -a Number of individuals benefitting from ACE or ADF financial agreements/ Indirect	0	94,162	101,711	124,231	8,870	133,101	90,000	148%	120,000
1.3 Percent annual increase in household income by assisted direct beneficiaries	Oct, 11, Avg \$580 per Household	-	56%	32%	N/A	-	-	-	10%
1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities	0	171	856	1,987	512	2,499	1,250	200%	2,000
Male	0	171	749	1,667	271	1,938	1,000	194%	
Female	0	0	107	320	241	561	250	224%	
2.1 Value of challenge/ innovation and agriculture modernization grants app	0	\$737,683	\$1,756,296	\$2,707,854	\$303,580	\$3,011,434	\$12,250,000	25%	\$20,000,000
Male	0		\$1,592,475	\$2,259,014	\$67,100	\$2,326,114			
Female	0		\$163,821	\$448,840	\$236,480	\$685,320			
2.1 - a Value of Challenge/Innovation (ADF) Grants	0	\$607,970	\$783,099	\$1,186,780	\$0	\$1,186,780	\$8,000,000	15%	15000000
Male	0	\$0	\$759,108	\$1,162,789	\$0	\$1,162,789			
Female	0	\$0	\$23,991	\$23,991	\$0	\$23,991			
2.1 -b Value of Agricultural Modernization (ACE) grants approved	0	\$129,713	\$973,197	\$1,521,074	\$303,580	\$1,824,654	\$4,250,000	43%	\$5,000,000
Male	0	-	\$833,367	\$1,096,225	\$67,100	\$1,163,325			

Female	0	-	\$139,830	\$424,849	\$236,480	\$661,329			
2.2 Number of participating Financial Intermediaries and Private Intermediaries on-lending funds	0	14	50	85	5	90	23	391%	25
Male	0	-	47	80	5	85			
Female	0	-	03	5	0	5			
2.3 Number of innovative lending products established by Private Intermediaries (IRs) and Financial Intermediaries (IRs)	0	3	9	9	0	9	6	150%	6
2.4 Percentage of loan losses resulting from ACE lending recommendations	0	-	1.32%	3.86%	4.84%	4.84%	<5%	100%	<5%
3.1 Percentage change in value of exports of Afghanistan agricultural products for firms supported by ACE	\$3,048,355 (Oct,2011)	-	61%	18%	-	-	-	-	10%
3.2 : Number of loans approved under USAID's Development Credit Authority (DCA) mechanism	0	0	0	0	0	0	3	N/A	4
3.3 Number of public-private partnerships formed as a result of USG assistance (including GDAs)	0	0	0	0	0	0	2	N/A	4
4.1 Number of individuals trained by ACE in credit policy and operations, value chain strengthening, and market information sys	0	15	189	450	144	594	98	606%	120
Male	0	15	175	339	115	454	69	658%	
Female	0	0	14	111	29	140	29	483%	
4.2 Number of person hours of training; including formal and practical training and technical visits	0	74	525	843	90	933	570	164%	700
5.1 Number of conferences, workshops and other initiatives designed to foster increased credit to the agricultural sector while addressing the value chain constraints	0	5	9	11	-	11	16	69%	20
5.2 Number of market information and market intelligence products created and disseminated by the established Knowledge Management	0	13	25	33	-	33	40	83%	50

* All indicators are expressed quarterly net, except for indicators 1.1 and 1.1(a) which are always expressed in cumulative figures.

Table 14: ADF Direct and Indirect Beneficiaries

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
1	Advance Building System	-	-	-	300	300	300
2	Javed Afghan Wheat Thresher Company	-	-	-	8,000	8,000	8,000
3	Sanaizada Edible Oil Extraction	-	-	-	600	600	500
4	Hamid Flour Mill	-	-	-	125	125	125
5	Kunar Farm Service Store	625	625	625	-	-	-
6	Helmand Farm Service Store	1,364	1,364	1,364	-	-	-
7	OsiyoHamkorlik	-	-	-	250	250	250
8	Season Honey	-	-	-	300	300	300
9	Dr. Abdul Wakil Farmers Association	-	-	-	52	52	52
10	Sayed Jamal Flour Mill	2,000	2,000	1,625	-	-	-
11	Samsoor Ban	-	-	-	4,500	4500	-
12	Javed Afghan Wheat Thresher (2nd)	570	570	109	8,170	8,170	1,800
13	Yaqoobzada	-	-	-	250	250	-
14	Advance Building System (2nd)	-	-	-	230	230	-
15	RANA Seeds Company	-	-	-	177	177	177
16	HariwaHabibzadah Company	-	-	-	110	110	110
17	HabibOmid	600	600	600	-	-	-
18	TyoranAyobi	-	-	-	2,500	2,500	2,500
19	Afghan Women Saffron Association	117	117	117	-	-	-
20	Kunar Farm Service Store (2nd loan)	688	688	688	-	-	-
21	Logar Farm Service Store	-	-	-	-	-	-
22	Qarizadah Tomato Paste	800	800	780	1,000	1,000	1,000
23	SalaheDekundiwal Brothers Agro Productions and Services Company	-	-	-	10	10	10
24	Helmand FSC (2nd Loan)	-	-	-	-	-	-

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
25	Laghman FSC	645	645	438	-	-	-
26	Afghan Rice Mill	219	219	219	500	500	500
27	Apple Association	-	-	-	-	-	-
28	Ghulam Dastagir Food Production Company	-	-	-	-	-	-
29	Sayel Food Processing Company	-	-	-	50	50	50
30	TajeTelayee Development Poultry Farm Cooperative	8	8	2	-	-	-
31	Nangarhar Nursery Growers' Association (NNGA)	20	20	18	40	40	40
32	Rabia Mariam Handicraft Company	-	-	-	2,000	2,000	2,000
33	Dr. Abdul Wakil Farmers Association (2nd	-	-	-	-	-	-
34	Kapisa Farm Service Center	200	200	160	-	-	-
35	Tanin Herat Industrial Food Company	70	70	53	-	-	-
36	Takhar Trader Women Social Organization	150	150	145	100	100	100
37	Ghulghula Ag. and Livestock Co-op	1,500	1,500	150	-	-	-
38	Sayed Ahmad Khushakyar	600	600	569	-	-	-
39	Dehqan Roz	200	200	-	-	-	-
40	Herat Ice Cream	800	800	761	1,200	1,200	1200
41	Heri Biscuit	200	-	-	-	-	-
42	Sodais Saud Trading Co	400	59	59	500	500	500
43	Tokhe Oil Producing Co.	-	-	-	100	-	-
44	Hafiz Ebad Wool Mill and Carpet Production Company	-	-	-	1,050	1,050	1,050
45	Fine Food Factory	-	-	-	30	-	-
46	Momen Khan Ag Input Company	250	245	245	1,500	1,500	1,500
47	Afghanistan Social Poultry and Animal Farmer Association	20	18	18	45	45	45
48	Shoib Faisal Rice Processing Company	600	-	-	1,500	-	-

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
49	Nangarhar Edible Oil Processing	1,100	657	657	-	-	-
50	Hussianzada Ltd	3,100	-	-	-	-	-
51	Jawid Kohnawardan Company Limited	-	-	-	80	80	80
52	Sadiq Mateen Afghan Company Ltd	-	-	-	-	-	-
53	Jawid Afghan Wheat Threshers Manufacturing Company	-	-	-	12,000	12,000	12,000
54	Motmaheen Agricultural and Livestock Retailing Association	837	837	225	4,400	2,000	2,000
55	Hirat Capable Women Association	20	14	14	1,255	1,255	1,255
56	Rawnaq Agricultural and Livestock Cooperative	-	-	-	25	-	-
57	Uddin Wardak Wool Washing and Carpet Company	10	10	-	2,000	2,000	2,000
58	Mustafa Jamal Flour Mill	214	-	-	-	-	-
59	Farah Gostar Ltd	200	-	-	-	-	-
60	Hamesha Bahar Company	30	-	-	100		
61	Amin Karim Carton Manufacturing Factory	-	-	-	-	-	-
62	Stan Gul Poultry Farm	15	15	-	-	-	-
63	Raqib Plastic Packaging Complex	-	-	-	6	-	-
64	Hirat Delta Industrial Packaging Company	20	-	-	-	-	-
65	Aziz Farid Cotton Processing Company	900	531	531	5,000	5,000	5,000
66	Attae Export and Import Ltd	105	105	105	70	70	70
67	Hikmat Feed Factory	-	-	-	70	-	-
68	Paktika Urgon Pine Nuts Association	161	161	161	850	850	850
69	Koshkak Talokan Cooperative	58	-	-	60	-	-
70	Takhar Province Dry Fruit Processing and Social Association	-	-	-	1,952	-	-
71	Azmiyan Macroni, Biscut and Salty Snack Production Company	220	220	25	-	-	-

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
72	Baghlan Dairy Company	-	-	-	-	-	-
73	Al Faqeer Cotton Oil company	-	-	-	70	-	-
74	Frangis Food and Beverages Company	-	-	-	40	-	-
75	Nawi Hena Production Company	26	26	26	300	300	300
76	Sama Poultry Farm	-	-	-	50	50	50
77	Morwarid Food Industry	-	-	-	500	500	500
78	Nangarhar Afghan Training Center	-	-	-	-	-	-
79	Takana Sefla Brothers Co. Ltd	46	46	46	-	-	-
80	Khushbakht Brothers Co. Ltd	100	100	-	1,200	1,200	-
81	Bedak Sharif Brothers Carpet Yarn	-	-	-	-	-	-
82	Omar Farooq Food Products Limited	-	-	-	80,000	-	-
83	Kabul Packages Company	-	-	-	-	-	-
84	Hamid Flour Mill Pvt Ltd. (2nd loan)	-	-	-	-	-	-
85	Mehran Guzargah Cold Storage Service	-	-	-	400	400	400
86	Sadeq Hamid Badghisi Ltd	150	150	-	-	-	-
87	Central Aibak Dry Fruit Seller Association	-	-	-	2,000	-	-
88	Kamel Dairy Production Company	-	-	-	135	-	-
89	Hope Agriculture and Livestock Company	-	-	-	-	-	-
90	Khulm Bastan Nursery Grower Association	-	-	-	-	-	-
91	Shir Poor Sultani Flour Mill	35	35	35	120	120	120
92	Gholami Brothers Ltd	-	-	-	-	-	-
93	Omid Khurshid Noor Ltd	-	-	-	-	-	-
94	Qurbankhail MawlanaYaqoobCharkhi Brothers Company Ltd	-	-	-	-	-	-
95	Mia Sahib Farm	-	-	-	-	-	-
96	Masroor Food Processing Company	-	-	-	-	-	-

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
97	Sahil Aminzada Cattle and Agricultural Company Ltd	29	-	-	-	-	-
98	Sayed Jamal Flour Mill(2 nd loan)	350	-	-	1000		
99	Nangarhar Edible Oil Company (2 nd loan)	13			646		
100	Ariana Saffron Cultivation, Processing, and Packaging Company	-	-	-	200	-	-
101	Brotherani Samadi Gen and Press and Edible Oil Production Company	-	-	-	-	-	-
SUB-TOTAL Agribusinesses		20,385	14,405	10,570	149,718	59,384	46,734
102	Afghanistan Almond Industry Development Organization	212	212	212	-	-	-
103	Eastern Region Fruit Growers Association	1,845	1,845	1,845	-	-	-
104	Durukhshan Bamyān Co-op	15	15	15	-	-	-
105	Kawe Tajik Bamyān Co-op	47	47	47	-	-	-
106	Koh-e-Baba Bamyān Co-op	10	10	10	-	-	-
107	Shahemardan Bamyān Co-op	59	59	59	-	-	-
108	Katway Bamyān Co-op	155	155	155	-	-	-
109	Shanbul Bamyān Co-op	74	74	74	-	-	-
110	KhwajaSabz Posh Bamyān Co-op	22	22	22	-	-	-
111	Afghanistan National Seed Organization	4,140	4,140	4,140	86,087	86,087	86,087
112	Exporters' Loan (AAIDO)	5	5	-	400	280	280
113	Afghanistan Almond Industry Development Organization	1,852	1,852	1,852	-	-	-
114	Bamyān cooperatives	700	525	525	-	-	-
115	ANSOR, Afghanistan National Seed Organization – 2012	4,351	-	-	-	-	-
116	Farm Service Center Association of Afghanistan (FSCAA)	1,400	-	-	-	-	-
117	Khalifa Sahib Agricultural and Livestock	137	-	-	-	-	-

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers	Approved	Disbursed to Financial Intermediaries	Disbursed to End Borrowers
	Cooperative						
118	Afghan Women Saffron Growers' Association	70	70	-	950	950	-
119	Bamyan Cooperatives 2013 (Third loan)	1,236	944	944	-	-	-
120	Bakhtar Agricultural and Livestock Secondary Cooperative	350	-	-	1,000	-	-
SUB-TOTAL NFI		16,680	9,975	9,900	88,437	87,317	86,367
121	Islamic Investment and Finance Cooperative Group	1,137	1,137	1,137	-	-	-
122	BRAC Bank	-	-	-	-	-	-
123	Afghan Growth Finance (AGF)/SEAF	181	-	-	34,200	-	-
124	Islamic Investment and Finance Cooperative Group	3000	414	414	-	-	-
125	Oxus Afghanistan	500	351	351	-	-	-
126	Oxus Afghanistan(2 nd loan)	750	-	-	-	-	-
SUB-TOTAL FI		5,568	1,902	1,902	34,200	-	-
GRAND TOTAL		42,633	26,282	22,372	272,455	146,701	133,101

Indicator #1.2 – In the last quarter, ACE monitored disbursement of seven non-financial intermediaries to 841 farmers (see Table no. 15 below). The disbursements were handled correctly by the ADF clients. As per indicator definition stipulated in the ACE PMP, ‘one farmer borrower can be counted only once’ therefore only the new farmers are counted towards the data for this quarter. All the 22,372 ADF direct beneficiaries are unique farmers, counted only once. During this period, Motmaheen Agriculture and Livestock Retailing Association provided its farmer members with veterinary medicines and pesticides in Khuram and Sarbagh districts of Samangan province. The in-kind loans provided by the Association ranged from AFN 23,000 to AFN 32,000. The Nangarhar Edible Oil Processing Cooperative that provided advanced payments to its farmer members in Surkhrod, Kuz Kunar, and Rodat districts of Nangarhar province. The farmers will deliver cotton to the client during the harvest season.

Table 15: New Direct beneficiaries achieved in Q1 FY14

No	Company	Direct beneficiaries	Male	Female
1	Aziz Farid Cotton Processing Company	122	122	0
2	Nangarhar Edible Oil Processing Cooperative	377	377	0
3	Takana Sefla Brothers Co. Ltd	46	46	0
4	Azimyan Macaroni, Biscuit, and Salty Snack Producing Company	25	25	0
5	Motmaheen Agriculture / Livestock Retailing Association	225	225	0
6	Paktika Urgon Pine Nuts Association	11	11	0
7	Shir Poor Sultani Flour Mill	35	35	0
TOTAL		841	841	0

Table 16: New agribusinesses counted towards indicator #1.2 in Q1 FY14

No.	Agribusiness Name	Quarter
1	Ariana Saffron Cultivation, Processing, and Packaging Company	Quarter I FY 2014
2	Brotherani Samadi Gen and Press and Edible Oil Production Co	Quarter I FY 2014

The total number of beneficiaries (cumulative) consists of 20,372 farmers and 45 agribusinesses, which are not involved in on-lending activities. This brings the total number of individuals benefiting from ACE financial agreements to 22,417.

Table 17: Direct Beneficiaries per Regional Command (cumulative from the beginning of the project)

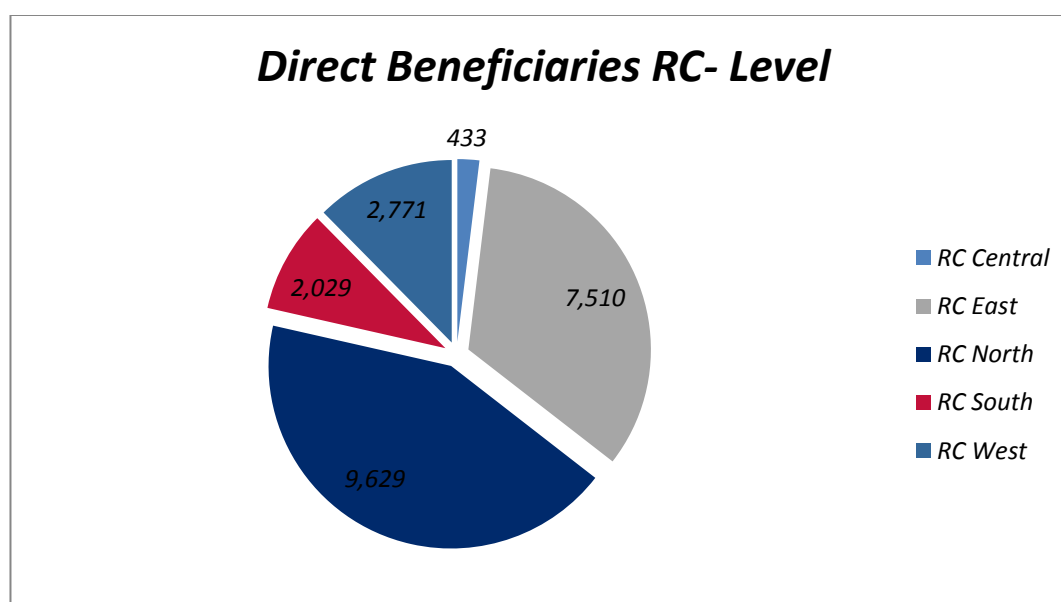
Region	Direct Beneficiaries	Male	Female
RC - Central	433	416	17
RC - East	7,510	7448	62
RC - North	9,629	9371	258
RC - South	2,029	2029	0
RC - West	2,771	2616	155
TOTAL	22,372	21,880	492

As shown in the graph below, the majority of the direct beneficiaries are located in the northern and eastern regions, which are very active in wheat and rice production as well as in oil crops, fresh and dried fruit and food processing. In the next quarter, ACE expects to have a larger number of direct beneficiaries in the next two quarters which correspond with the planting season and spring.

Table 18: ACE/ADF approved and disbursed loans per Regional Command

Region	Loan Approved (\$)	Loan Disbursed (\$)	Beneficiaries
RC Central	\$33,761,373	\$7,519,037	433
RC East	\$15,438,722	\$10,558,782	7,510
RC North	\$20,297,127	\$14,591,204	9,629
RC South	\$4,377,006	\$1,997,984	2,029
RC West	\$10,484,832	\$6,780,271	2,771
Total	\$84,359,060	\$41,447,278	22,372

Graph No 8: ACE Direct beneficiaries by Regional Command



The Performance Indicator Data Sheet (Table No.13) shows the ACE quarterly accomplishments and the current cumulative actual performance against quarterly and annual targets. Below are some of the reasons ACE could not fully achieve the quarterly targets for indicators #1.2 and #2.1.

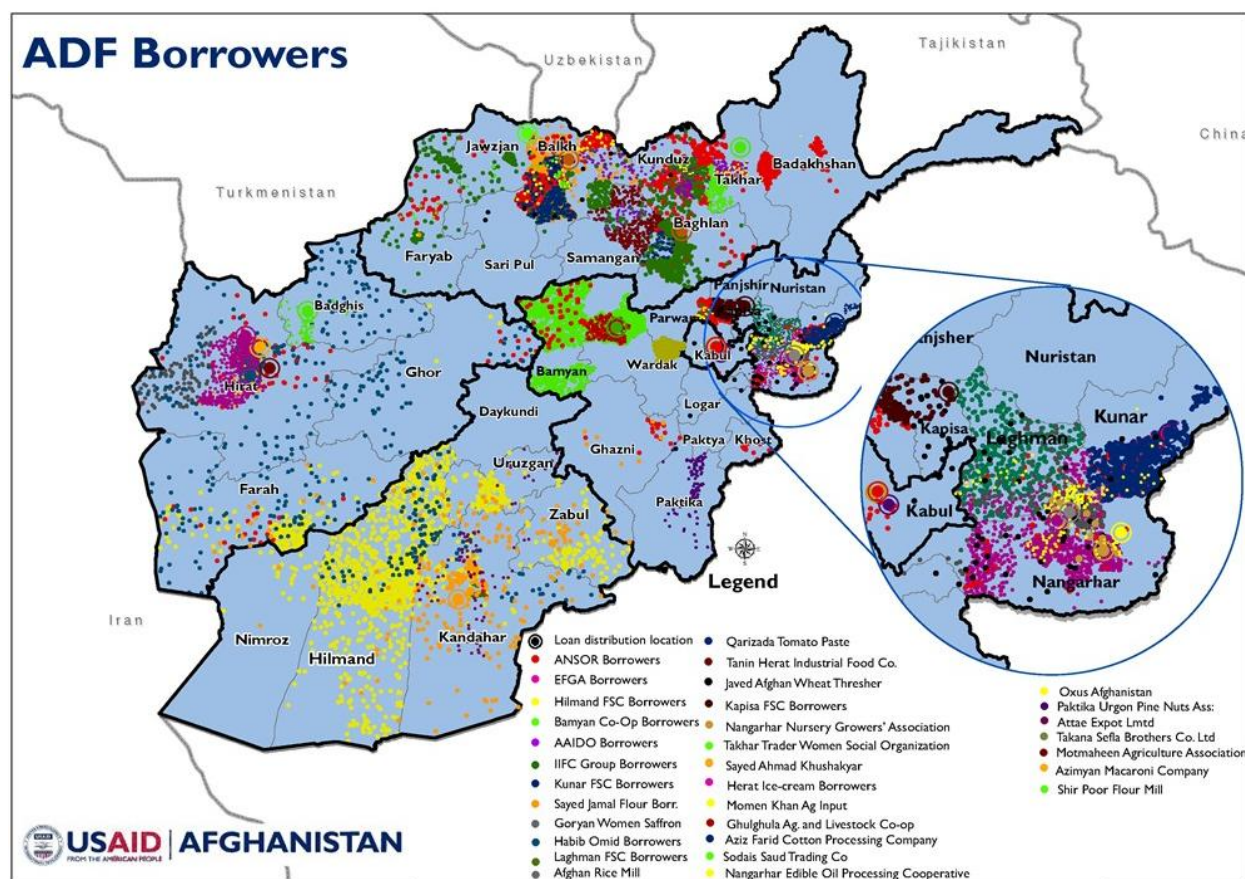
- The reporting quarter that covers the October –December time period coincides with the “low season” for the agricultural sector with very investments in commercial farming. For these reason the number of direct beneficiaries did not exceed 841 new farmers which received loans in cash, seeds and fertilizers, and veterinary medicine and tools. It should be noted that ACE only counts one farmer once therefore, regardless of how many times a farmer receives an ADF loan, and they are counted once.
- In the last quarter ACE approved three new ACE agricultural modernization grants to support ADF clients with improving their processing lines and developing comprehensive marketing strategies. Since the ADF has not been able to operate as a wholesale lending entity which works through financial intermediaries, there was little purpose in exhausting the ADF

Challenge and Innovation Grants' fund. For this purpose, ACE will propose to use the remaining amount for lending during the option year 3. However, with the identification of 198 borrowers so far, extending value chain strengthening support and technical assistance has been made easier. Till now, ACE is assisting 30 ADF clients with agricultural modernization grants, designed to modernize their operations aiming efficiency and optimization of their processing lines. The team is making adjustments to reach the target in the next quarter. Below is the grants pipeline for the next quarter:

Table 19: ACE/ADF Grants pipeline for the next quarter

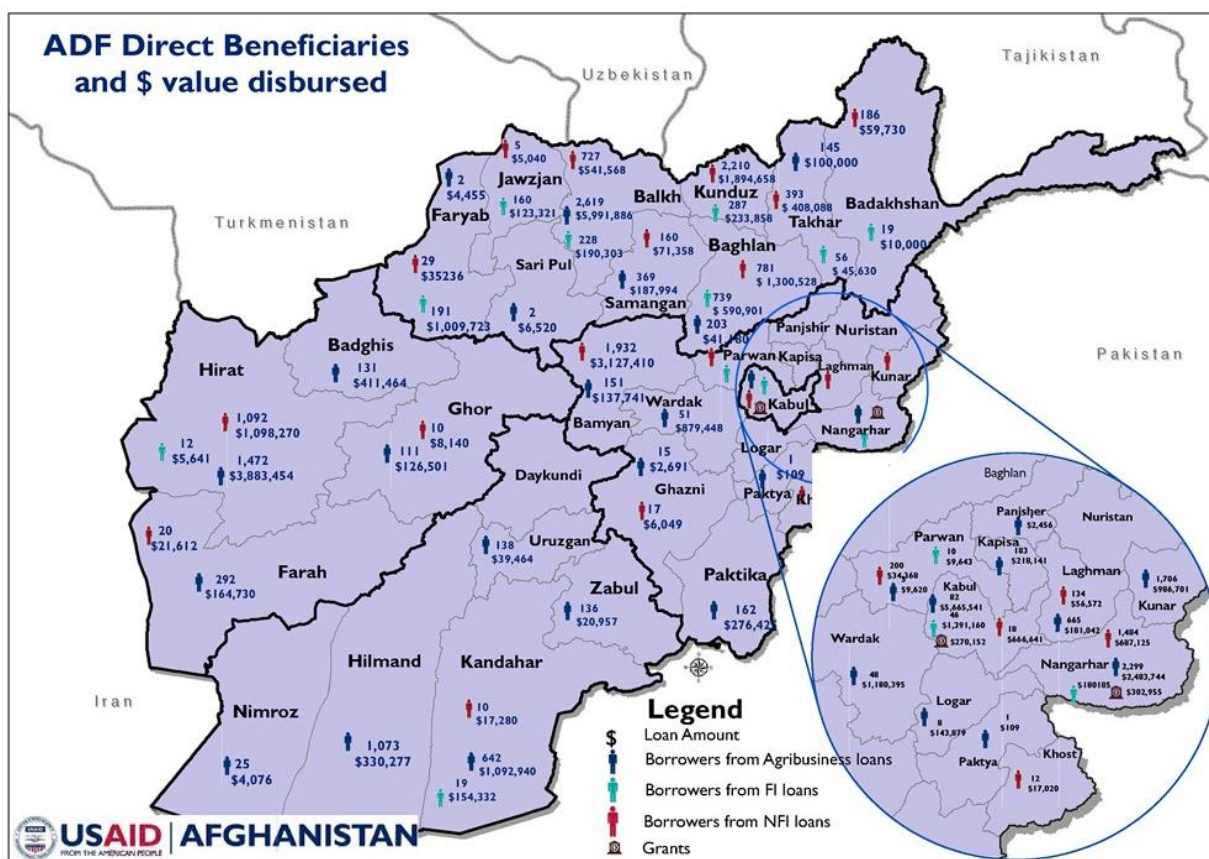
No	Grantee Name	Description	Grants Requested
1	Morvarid Food Industries	Procurement of an automatic dried fruit packing machine, and its installation.	\$ 85,000.00
2	Nawi Henna Production & Packaging Company	Equipment Purchase and Marketing Assistance, and hiring of an accountant.	\$ 30,800.00
3	Frangis Food & Non-Alcoholic Beverage Processing Company	Training, Equipment Purchase and Marketing Assistance.	\$ 25,610.00
4	Bakhtar Agriculture and Live Stock Secondary Cooperative (BALSC)	Setting up a Credit Management Unit (CMU)	\$ 65,000.00
5	FATIMA ZAHRA Sharia Finance	Technical assistance request to enhance the marketing strategy of ADF	TBD
6	American University of Afghanistan	To conduct a series of training for ADF partners, clients and staff	\$ 72,000.00
7	Women Owned Business Training	Developing business management capacity of the women owned companies	TBD

Map 1: ADF Direct Beneficiaries per Province



Indicator #1.3 - Percentage increase in income by assisted farms and agribusinesses is an annual indicator which, as per PMP and the Annual Work Plan 2, will be next reported in FY 2014.

Map 2: ADF Direct Beneficiaries and Loan Amount per RC



Indicator #1.4 - During this quarter, the number of new jobs created expressed in Full-Time Equivalent is 512. This increase counts for the new jobs created comprising full time, part time and seasonal jobs, of which 47 percent target women. This consists of a significant increase.

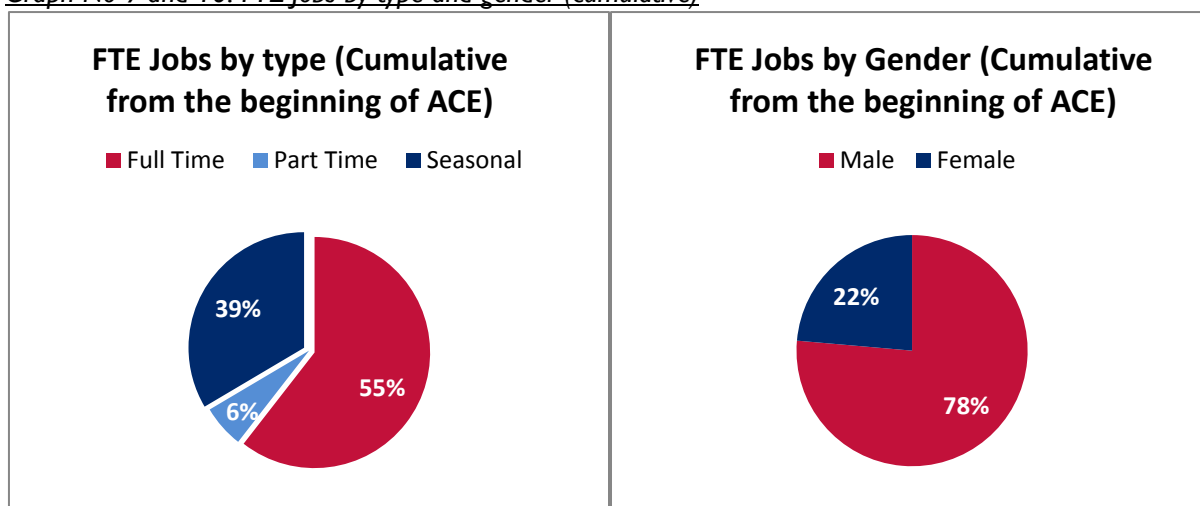
Table 20: New FTE Jobs Created in Q3 FY 2013

No	Type of FTE Jobs	Male	Female	TOTAL
1	Full Time Jobs	95	38	133
2	Part Time Jobs	28	3	31
3	Seasonal Jobs	148	200	348
TOTAL		271	241	512

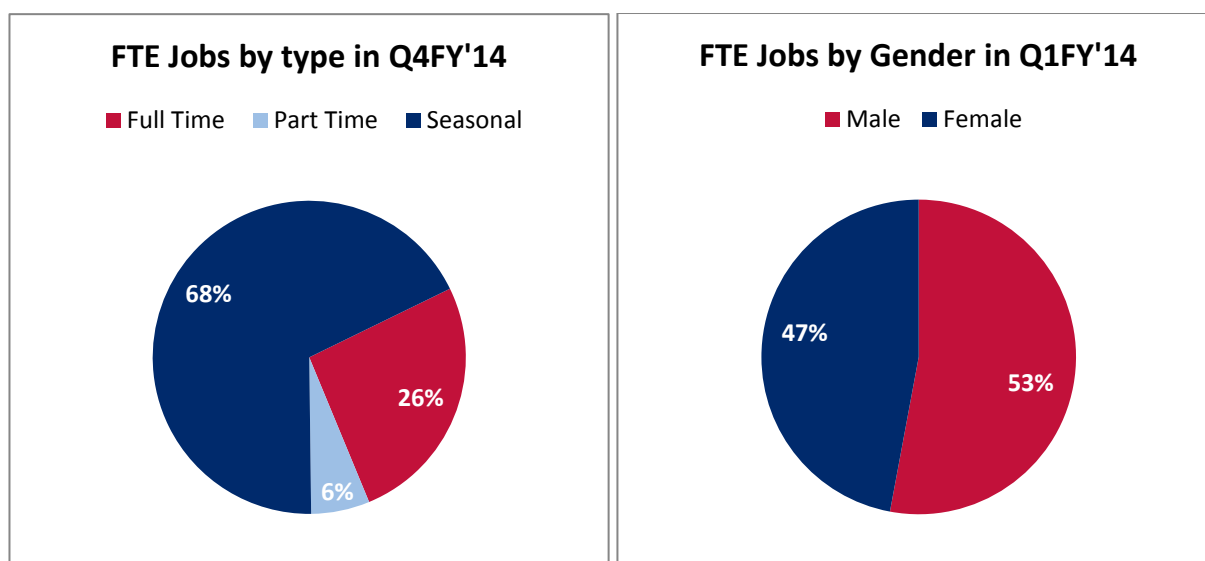
Table 21: FTE Jobs Created by ACE (cumulative)

No	Type of FTE Jobs	Male	Female	TOTAL
1	Full Time Jobs	1,105	255	1,360
2	Part Time Jobs	164	7	171
3	Seasonal Jobs	669	299	968
TOTAL		1,938	561	2,499

Graph No 9 and 10: FTE Jobs by type and gender (cumulative)



Graph No 11 and 12: FTE Jobs by type and gender for Q1 FY'14 only



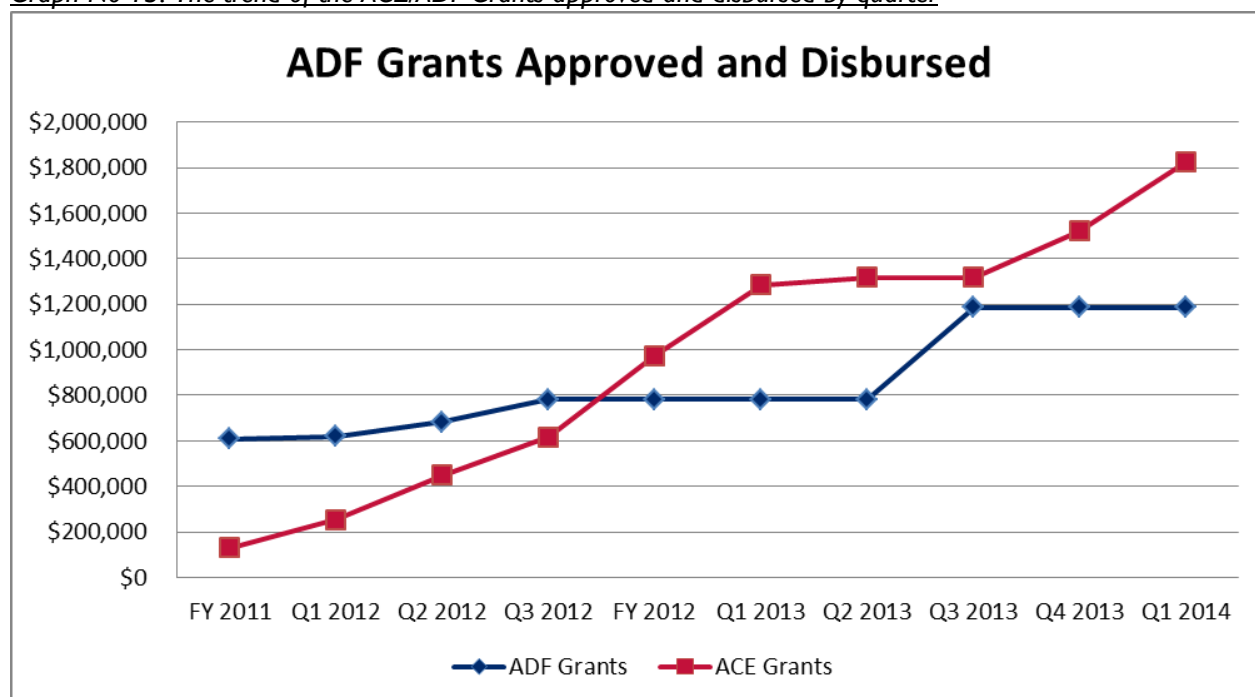
Indicator #2.1– In quarter 1 FY'14 ACE approved three new ADF Challenge Grants worth of US\$360,940. See Table No. 5 in Page 22 and the Graph no 13.

Indicator #2.2 – Number of participating FIs and PIs on-lending funds: For this quarter, ACE has five new participating intermediaries as shown below. As of December 31st, ACE has been on-lending through 90 financial and non-financial intermediaries.

Table 22: New Participating Intermediaries (Q1 FY'14)

No.	Intermediary	Beneficiaries
1	Aziz Farid Cotton Processing Company	122
2	Takana Sefla Brothers Co. Ltd	46
3	Azimyan Macaroni, Biscuit, and Salty Snack Producing Company	25
4	Motmaheen Agriculture / Livestock Retailing Association	225
5	Shir Poor Sultani Flour Mill	35

Graph No 13: The trend of the ACE/ADF Grants approved and disbursed by quarter



Indicator # 2.3 – There are no new innovating lending products established in the last quarter.

Indicator # 2.4 – Currently the ADF default rate is at 4.84 percent, with all the loans being repaid on schedule except for few of them. (See Annex I for detailed information).

Indicator # 3.1 – As per the approved PMP and Annual Work Plan 2, the percentage change in export sales for firms supported by ACE will be reported next in FY2013.

Indicator # 3.2 – Number of loans approved under USAID’s DCA mechanism – despite the efforts of the ACE teams, none of the banks operating in Afghanistan have shown interest in the DCA mechanism thus far.

Indicator # 3.3 – Number of public-private partnerships formed as a result of USG assistance, including GDAs. The team has been working since September in establishing three milk collection centers in Herat under a GDA mechanism where farmers, Herat Ice Cream (an ADF client) and ACE program would all contribute to the project. At the time being, the ACE and the client are assisting with the establishment of three dairy farm associations which will act as the primary beneficiary of this project. In addition, the technical team is working on identifying similar projects that can be accomplished under the framework of Global Development Alliance.

Indicator #4.1 – In the last quarter, ACE trained a total of 144 participants from ADF borrowers and ACE staff.

Table No 23: Training provided by ACE in Quarter 1 FY14

No	TOPIC	# of Participants	Location	Start	End	#Hours
1	Hygiene and Sanitation Improvement Practices (Sudais Saud Company)	20	Herat	12/12/2013	12/12/2013	4
2	Hygiene and Sanitation Improvement Practices (Herat Women Saffron Association)	20	Herat	12/30/2013	12/30/2013	4
3	Hygiene and Sanitation Improvement	17	Nangarhar	10/3/2013	10/3/2013	5

	Practices (Sayel Food Processing Company)					
4	Hygiene and Sanitation Improvement Practices (Ghulham Dastagir Food Production Company)	16	Nangarhar	10/2/2013	10/2/2013	5
5	World Class Customer Service	15	ACE Kabul	12/5/2013	12/5/2013	8
6	Leadership Advantages	13	ACE Kabul	12/3/2013	12/5/2013	24
7	High Impact Presentation	13	ACE Kabul	12/9/2013	12/9/2013	16
8	Creating Professional Demeanor	15	ACE Kabul	12/11/2013	12/12/2013	16
9	Business Execution	15	ACE Kabul	12/10/2013	12/10/2013	8
TOTAL		144				90

Indicator # 4.2—ACE provided nine training course with a total of 90 hours of training in the topics presented in the table above.

Indicator #5.1 – During the past quarter, there were no workshops aimed at removing the value chain growth constrains. In the next quarter, ACE will conduct three workshops in the North, West and East (including Kabul and Kandahar too) on export procedures focusing on the largest crops exported, or industries

Indicator # 5.2 – While there were no new market information and market intelligence products launched in the last quarter, ACE is taking measures to meet the target in the next quarter.

Sex-disaggregated Data: Actual versus Targets

As presented out in the previous quarterly reports, as of the last year ACE set self-imposed targets for male and female beneficiaries moving forward for three indicators. Below are the indicators on direct beneficiaries, jobs creation (in FTEs) and number of people trained disaggregated by sex. These targets are presented in the Annual Work Plan for option year 3.

Table No 24: Sex-segregated Indicators with self-imposed targets

ACE Performance Indicators	Actual Q1 FY2014 (Cum.)	Target Q1 FY2014 (Cum.)	Percentage % Achieved
1.2 Number of individuals benefitting from ACE or ADF financial agreements	22,417	45,000	50%
Male	21,923	43,875	50%
Female	494	1,125	44%
1.4 Net total increase in Full-Time Equivalent (FTE) jobs created by USG sponsored agriculture activities	2,499	1,250	200%
Male	1,939	1,000	194%
Female	560	250	224%
4.1 Number of individuals trained by ACE in credit policy and operations, value chain strengthening, and market information system.	594	98	606%
Male	454	69	658%
Female	140	29	483%

ACE met and exceeded the gender-based targets on the number of jobs created, and # of individuals trained, delivering excellent results in creating new jobs for women through the ADF lending opportunities and providing training opportunities for its female staff. However, ACE did not meet the target set for female direct beneficiaries for the same reason we are lagging behind on the number of direct beneficiaries in general.

ACE also reports gender-disaggregated data on three additional indicators, starting in Quarter 3, FY2012. The table below shows the gender-segregated data the three additional indicators.

Table No 25: Sex-segregated Indicators without targets Q1 FY 2014

ACE Performance Indicators	FY 2013	Q1 FY 2014
1.1 Value of Finance Accessed	\$80,542,655	\$84,359,060
Male	\$78,731,638	\$82,548,043
Female	\$1,811,017	\$1,811,017
2.1 Value of Challenge/Innovation and Agriculture modernization grants approved.	\$2,707,854	\$3,011,434
Male	\$2,259,014	\$2,326,114
Female	\$448,840	\$685,320
2.2 Number of participating financial intermediaries and private intermediaries on lending funds from ADF	85	90
Male	80	85
Female	5	5

Impact Results on several ADF loans:

- The Rabia Maryam Handicraft Company received an ADF loan of US\$230,000 to purchase additional raw materials and increase their business and productions. One year into the loan implementation, the client increased their production by 33 percent, annual sales by 27 percent and net income by 31 percent. The company has created 58 new jobs.
- The Tanin Herat Industrial Food Company received an ADF loan of US\$400,000 to purchase fresh cucumbers from farmers and build a hanger to be used as storage for finished products. After one and half year from the start of the project, the client has achieved 27 percent increase in production, 41 percent increase in sales and 17 percent increase in net income. The company created 11 new jobs.
- The Salahi Daikundiwal Agricultural Production Company received an ADF loan of US\$100,000 to purchase plastic sheeting, drip irrigation pipes and other equipment to build 34 new well equipped and modern greenhouses. In one year the client has increased their annual production by 168 percent, annual sales by 191 percent and net income by 282 percent. The company has created 72 full time jobs and expanded their markets to Ghazni and Paktia provinces.
- The Sudais Saud Trading Company received an ADF loan of US\$800,000 to purchase pistachio from farmers on credit and export it to India, Turkey and UAE. After 15 months since the start of the loan implementation the client shows a 14 percent increase in the production, 7 percent increase in the sales and a net income increase by 22 percent. The client has created 65 full time (in FTE) jobs so far.

- The Sayed Jamal Flour Mill in Mazar-e-Sharif received an ADF loan of US\$1.9 million to purchase wheat from farmers and increase their production. Two years after of the loan disbursement, the client has increased their production by 121 percent, increased the sales by 124 percent and net income by 180 percent. Sayed Jamal Flour Mill created 199 new jobs (in FTE).
- The Afghan Rice Mill Company received an ADF loan of US\$200,000 to extend advance payments to 219 farmers and purchase 800 Metric Tons of paddy from the farmers. After one year of the ADF loan disbursement, the loan has benefited 219 farmers in the Eastern region, increased the total annual production of the client by 74 percent, annual sales by 77 percent and net income by 52 percent. The company created 48 new jobs.

Communication and Outreach

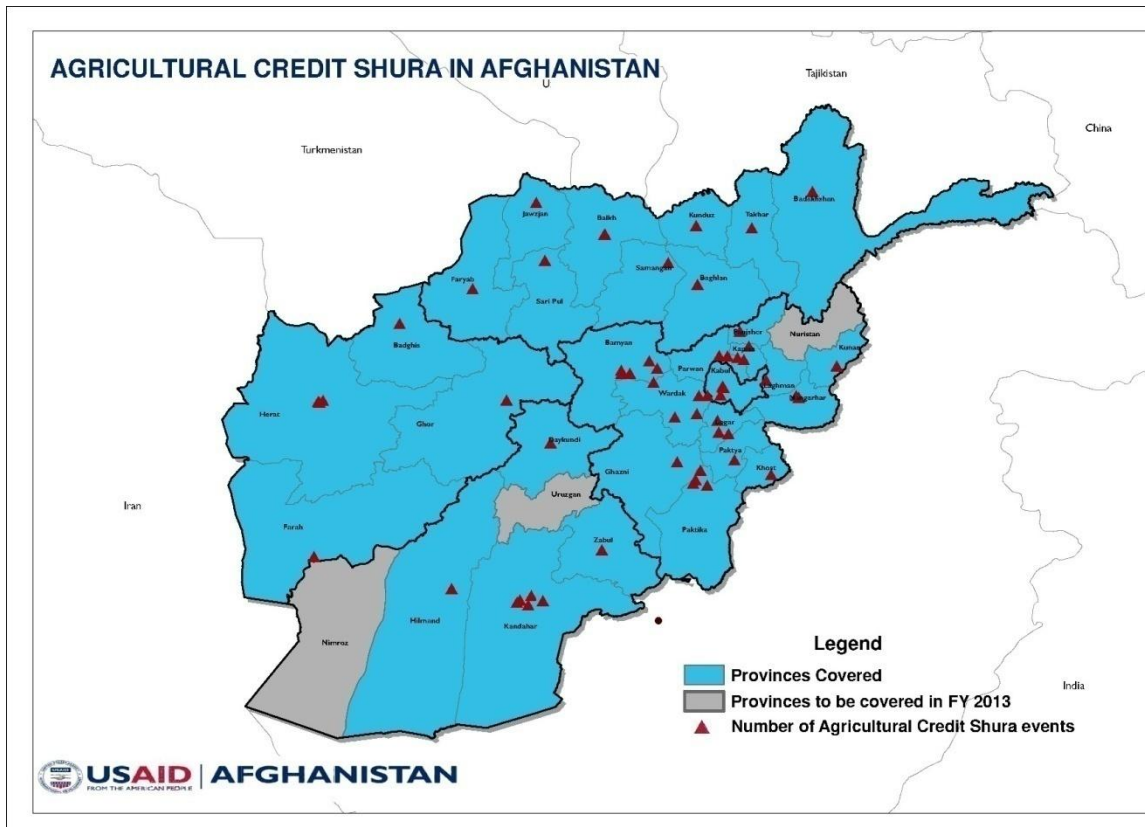


During the last quarter, ACE published three News Briefs for the months of October, November and December. The News Brief of October titled “Yogurt after a loan is good for all” describes the production line of Dehqan Roz, an ADF client. For years, Dehqan Roz manufactured plain yoghurt using the most basic equipment and production process. Milk from two suppliers was made into yoghurt, which was delivered to small shops in Kabul. The company was able to raise its game after it procured a loan from Agricultural Development Fund (ADF). It bought modern processing machinery and was able to improve the quantity and quality of its products. And it started to buy milk directly from producers around Kabul. Dehqan Roz’s metamorphosis is a good example of the way a loan can bring about positive change.

The second News Brief published in the month of November 2013 titled “A Crunchy Success from Many Angles” explains the ADF loan to Sayel Food Processing Company. Sayel Food Processing Company is based in Jalalabad city, Nangarhar province. The company produces crispy potato chips and during the last 3 years it has supplied the local wholesale market. The Agricultural Development Fund (ADF) provided a Sharia Islamic Finance product to the company in order to increase their production, lower the costs and compete with imported chips. ADF also linked Sayel Food Processing Company with potato producing cooperatives in Bamyán province, which are also ADF clients. Sayel Food Processing Company is one of over 22,000 ADF clients over around the country. Over Fifty percent of the ADF portfolio consists of Islamic loans.

The News Brief published during the month of December 2013 titled “Economic Freedom” is about the impact of ADF loan in the dried fruit sector specifically pine nuts. ADF provided a loan of US\$273,025 to Paktika Pine Nuts Association to pay advanced cash to the rural household and purchase pine nuts. The benefits of this loan were immediately obvious, the association is selling their product in China, at prices substantially higher than those paid in Pakistan; because Chinese importers require better quality, the association is employing a large number of women in the process in exchange for regular compensation. This is relevant since before the loan, women would extract the seeds from the cones and would only receive the pine cones as payment. This is one of many ways in which agricultural credit is providing rural households with economic freedom, prosperity and social stability.

Map No3 : Agricultural Credit Shura events organized by ACE



Administrative and Human Resources

In the last quarter, ACE mobilized new human resources for some very crucial technical and administrative positions. The project hired six Afghan national staffs which includes Zubairullah Zalmi as Senior Procurement Manager and Mohammad Yusuf Safi as a Lending Officer, Ismail Nawabi as Credit Management Unit Officer, Mohammad Salem as Inventory Consultant, Rohullah Darwish as a Lending Officer and Muzhda Ghulam Mohammad as a Gender Officer in the Businesses Development and Gender department.

In terms of expatriate staff, Melissa Pineda started working with the project as Industrial & Business Advisor and Natalie Schoon as a Management Advisor joined the team on short-term assignments. Christine Wilkins, the project director visited the project from the ACE Home Office, and Isar Qureshi as Dale Carnegie trainer to build the capacity of Afghan staff in various leadership and management topics.

Table No 26: Afghan National personnel deployed during Quarter I FY2014

No.	Name	Position	Start Date
1	Zubairullah Zalmi	Sr. Procurement Manager	10-Oct-13
2	Mohammad Yusuf Safi	Lending Officer	8-Oct-13
3	Ismail Nawabi	Credit Management Unit Officer	1-Nov-13
4	Mohammad Salem	Inventory Consultant	25-Dec-13
5	Rohullah Darwish	Lending Officer	1-Dec-13

6	Muzhda Ghulam Mohammad	Gender Officer	1-Dec-13
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Table No 27: Expatriate personnel deployed during Quarter I FY2014

No.	Name	Position	Start Date
1	Melissa Pineda	Industrial & Business Advisor	10-Oct-13
2	Natalie Schoon	Management Advisor	25-Oct-13
3	Christine Wilkins	Project Director	30-Nov-13
4	Isar Qureshi	Trainer	30-Nov-13
5	Nirvana Pradhan	Food Processing Advisor	12-Dec - 13

ACTIVITIES FOR THE NEXT QUARTER

In the next quarter, ACE aims to focus several areas:

- 1) Continuation on the ADF transition and the finalization of the ADF business plan containing different scenarios. This not only consists of supporting the strengthening the roles and responsibilities of the ADF High Council, initiating the transition between ACE and ADF, but also attracting highly trained human capital.
- 2) Organize the next ADF High Council meeting which will take place in Dubai focusing on obtaining members approval on the nomination of the Afghan program directors for the ADF and finalizing the ADF business plan.
- 3) Controlling the repayments through following the credit administration procedures, maintaining a close relationship with the client, conducting field visits and sending frequent reminders on the upcoming ADF repayments.
- 4) Recruit the CEO of the ADF together with a senior banking advisor for the High Council.

ANNEX I – Percentage of Loan Losses Resulting from ACE Lending Recommendations

SN	Name of Business	Province	District	Amount (\$)	Type of Business	Start Date	End Date	Actual Amount Disbursed	Expected Value (\$) to date	Actual Value (\$) to date	% repaid for individual loan	Percentage Loss
Clients Sensitive Information												
TOTAL Loan Approved				\$84,359,060								
TOTAL Loan Disbursed				\$41,447,278								
TOTAL Loan Repaid				\$19,445,097								
TOTAL Value of Loans late by 180 days or more				\$1,064,687.42								

$$\text{Portfolio loan losses} = \frac{\text{Total Value of loans late by 180 days or more}}{\text{Outstanding*}} \% = \frac{1,064,687.42}{41,447,278 - 19,445,097} \% = \frac{1,064,687.42}{\$22,002,181} \% = 4.84\%$$

ACE has in place a problem loan committee whose sole purpose is to implement activities to minimize loan defaults. The latter complements ACE's prudent lending practices.